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Business Outlook

By EDWIN G. NOURSE*

Chairman, Council of Economic Advisers, Washington, D. C.

President's economic adviser points out because of ERP and Defense Program, the immediate business outlook might be reasonably designated as favorable, but effect on long-term economic outlook is unfavorable.

I trust that neither the Chamber nor the Council will fall under the unfavorable scrutiny of the Federal Trade Commission for misrepresentation of goods because of my appearance here on a program entitled "Economic Outlook." If any of you bought a luncheon ticket under the impression that you were to get a reading from some crystal ball of the Council's you are destined to disappointment.

Edwin G. Nourse

It would obviously be unwise or positively mischievous for the

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*Address by Dr. Nourse before the 36th Annual Meeting of the Chamber of Commerce of the U. S., Washington, April 27, 1948.

See pages 25 to 30, inclusive, for pictures taken at Annual Dinner of STANY and at Annual Dinner tendered by NSTA in honor of SEC.

Postwar I and II Conditions—A Comparison

By A. L. M. WIGGINS*

Under Secretary of the Treasury

Treasury executive points out there are basic elements of financial and economic strength in our economy today that can sustain higher price levels and production than existed after World War I. Foresees no precipitate price drop and predicts strong resistance to decline in wage levels. Looks for some price readjustments, and concludes present task is to hold line against inflation. Sees weakness in urban real estate situation.

Wars have always had a severe impact on the economy of the participants. From the Revolutionary War to World War II and all that came between, during and following every one, there was a demand for goods in excess of production with a resultant rise in price levels and a resultant adjustment in the economy.

A. L. M. Wiggins

Since our entry into World War II and particularly since V-J Day in August, 1945, businessmen, financial men, and economists have undertaken to analyze and to forecast the probable adjustments that might be expected.

The batting average of these opinions has not been good.

Following V-J Day, it was expected that our economy would take a deep plunge during the readjustment from war production to peacetime production. In order to facilitate the transition, many wartime controls were quickly

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*An address by Under-Secretary Wiggins at the Annual Meeting of the American Manufacturers Association, New Orleans, La., April 23, 1948.

Western Germany: Portent of Europe's Economic Future

By DR. WILHELM ROPKE

Professor, Graduate Institute of International Studies (Geneva)

Political economist deplores fact that American leadership in Western Germany is furthering state-trading and near-Soviet collectivism. Depicts state planning, based on repressed inflation combined with fixed prices, as causing climax of failure. Concludes Western Powers must resuscitate paralyzed economy in their zones, to make them a dam against, rather than bridge for, Russia's invasion of Western Europe.

GENEVA, SWITZERLAND—With regard to Germany the battle for wisdom seems to be fairly won now. What could not be achieved by persuasion has been done by the bitter lessons of experience. After almost three years of futile fumbling, the West realizs now that, a common rule with totalitarian Russia being excluded in Germany, the only policy left is what the present writer has termed the "nuclear solution" and to organize at least Western Germany as a political and economic entity in order to carry through there the reforms which are long since overdue. None of these reforms, least of all that of the German currency system, is feasible without a common government agreeing on the political and economic principles involved, and this common government is possible—and has always been possible—only in

Wilhelm Ropke

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EDITORIAL

As We See It

O wad some power the giftie gie us
To see oursel's as ithers see us!
It wad frae monie a blunder free us
And foolish notion . . . .

Of course, no one in his right senses would assert that the Kremlin has been acting in sweetness and light during these recent years. On the contrary, it is plain as a pikestaff that Marshal Stalin and his associates have been playing power politics for all that they can get out of it. Their aggressiveness has obviously gone far beyond any desire for a reasonable *cordon sanitaire* about them. They evidently mean to dominate Europe and Asia if they can. What else they have or will set their hungry eyes on, heaven only knows. Evidently, they think it worth while to go to a good deal of trouble to set up "fifth columns" in virtually all "capitalist" countries. It is conceivable that they take their own notion of a communist world centered about Moscow more seriously than seems reasonable to a rational observer outside of Russia.

But be all this as it may, we think it quite clear that we ourselves could gain a great deal from a more vigorous and realistic endeavor to see ourselves as we must

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Who Killed Horatio Alger?

By DE WITT EMERY*
President, National Small Businessmen's Association

Mr. Emery deplores decline in concept of free enterprise which is becoming as unknown as Horatio Alger is to present generation. Blames educational system as well as neglect of businessmen for trend toward bureaucracy and individual dependency on government and concludes too much has been taken for granted in upholding present system of individual initiative and enterprise.

Not long ago a brief news item appeared on the business page of a Midwest paper. The entire story was four sentences long. Yet it was about as complete an "editorial" on the present lack of understanding and appreciation of free enterprise as one could write. Indeed, the headline itself left little unsaid. It read:

"Survey Shows 87% of Students Never Heard of Horatio Alger."

De Witt Emery

Now there was a time when Horatio Alger was a household synonym for all that was good about the "good old days" of rugged individualism, of pioneering, of the up-by-bootstraps struggle of the office boy that wanted to become president of the firm.

And it is worth noting that in Horatio Alger's time, to be the president of a company, or even the general manager, or the superintendent, or the "bull-of-the-woods," all were worthy and respectable objectives in their own right. At present one cannot be so sure about their respectability, either in the eyes of the office boy or in the opinion of the public generally.

Nowadays the public is more inclined to think about the key officials of any business as vague entities in the collective term "management"—and *management* you will agree, is not always an inspiring term in our current language. In fact, just to read the stories about business in the daily press—and judging from the number of bad things management gets blamed for in contrast to the number of good things businessmen get credit for—one might even come to the conclusion that "management" and "businessmen" are a couple of new cuss words in our language.

It is also disturbing to find that other terms and concepts once associated with the progress and dynamic growth of our nation and our business system have fallen into disuse or disrepute. Terms like "rugged individualism" and "pioneering" are now pretty much associated with "movie characters." "Capitalist" is now an outright epithet and even "free enterprise" is taking on a tarnish.

Risk taking in a business venture with the prospect of making a profit has come to be suspect as a slightly illegal if not avaricious practice. The pursuit of security on somebody else's payroll is held out as a far wiser incentive than the doubtful prospect of being one's own boss and perhaps creating new jobs for others.

War Scare Politically Inspired

"I'm not impressed with the war scare. Do you remember the depression we were going to have the minute after the war ended? Everyone talked about it; it was the best advertised depression this country had ever known and then it didn't happen. I think exactly the same thing is true of war with Russia. It's the best advertised war we've ever had and, like the depression which did not occur as advertised, it is not going to happen as advertised. Mr. Truman has taken a leaf from Mr. Roosevelt's book of emergencies. He's trying desperately to get the people so badly scared that they'll re-elect him." Editor's Note: Mr. Emery concluded the address given herewith with the above reference to the widespread talk of the imminent danger of war with Russia.

A recent survey reveals the startling fact that *this trend has proceeded to the point where 41 out of every 100 Americans would rather look to the government for their jobs and security than to private employment.* Perhaps this is not surprising when we realize that already more than 15,000,000 people are either on some kind of government payroll or are drawing a government allotment of some sort. One out of every tenth job in the United States is currently supplied by the government.

Our over-dependence on the beneficence of bureaucracy is evidently converting us from a country of Horatio Algers into a nation of "securocrats." Indeed, opinion studies show that already more people in this country would rather work for the government than in England which is avowedly a socialist economy. The conclusion is no longer escapable that ours, the last free enterprise system in the world, is on very thin ice.

Yet is is a matter of simple fact visible to all that ours is also the strongest, most prosperous economy in the world, victor in a total war, and now the mainstay of a score of other nations which would face starvation and bankruptcy without our support. Our own standard of living is so high there is nought to compare it with and our personal freedoms, likewise, are without parallel. But, in spite of all this, we are constantly in turmoil, stirred up by home-grown agitators who would trade our system in on a dictatorship.

Why?

Is it perhaps that our system is dying of ignorance or at least suffering from take-it-for-granted-itis? It is quite possible that so few people now understand how our free private economy works that they have no real appreciation of why we are so well off or what the true sources of our good fortune really are. There is mounting evidence that this is true. And there are some fairly obvious reasons why. Let's examine some of them.

In the first place, our system of living and working together has become exceedingly complicated, even though its basic principles haven't changed. Everything we do is now far more complex than it was in Horatio Alger's day. All of which conspires to obscure what once was obvious.

This is the age of specialization in contrast to the time when almost every man was a jack-of-all-trades. The boss once prided himself that he could do every job in his plant as well or better than the man who worked at it. But, today, "management" is made up of specialized executives, each one an expert in some narrow field.

Down in the shop, even the lowliest worker is also a specialist performing one routine function over and over. He never finishes any single product and he has no idea what happens to it or who finally buys or uses it after it is completed. It goes to market through channels made up of a lot of other specialists, some of whom never even see the product. And the whole business system that does all these things is owned by millions of people who never so much as see the parts they own.

On top of all this we even live like specialists these days. A specialist builds our house, or maybe it's only part of a mechanical dwelling machine called an apartment. A crew of specialists heat it, keep it clean, and open and shut its doors.

Other specialists wash our clothes, provide us with transportation and do most of our food preparation. The modern housewife is a specialist in can opening, defrosting and gadget manipulating.

Our political life is likewise now conducted by specialists—thousands of them which we call "bureaucrats." The term itself comes from bureau or public agency, of which we have all sorts with alphabetical names. Each of these bureaus is staffed by "special" specialists, each charged with performing some function of government on authority delegated by Congress or the President. Since bureaucrats are not elected, they are not directly responsible to the people whose lives and affairs they control and regulate by the power delegated to them.

Education has also become mechanized and specialized. The one room schoolhouse is gone and so is the teacher who taught us "everything." Nowadays teach-

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*A talk by Mr. Emery at Meeting of Pressed Metal Institute, Cleveland, O., April 21, 1948.

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Trial and Error

NASD trial of R. H. Johnson & Co. appraised. Trial Committee's dual capacities as prosecutor and jury denounced. Arguments by a witness in the nature of advocacy should not be permitted. Increase of severity of penalty on appeal indefensible as placing a premium on search for ultimate justice. Administrative trial procedure in urgent need of reform.

Complaint No. 113 of the National Association of Securities Dealers against R. H. Johnson & Co. has excited our interest.

At considerable pains we have read the complete record, all of the testimony given on the hearing before Business District Conduct Committee, of District No. 13, and later, on appeal before the National Business Conduct Committee of the Board of Governors.

The complaint against the respondent, R. H. Johnson & Co., involved a claimed violation of Section 1 of Article III of the Rules of Fair Practice. It was alleged that there had been an unauthorized cancellation by the respondent of a contract to purchase 100 shares of Chicago, Milwaukee & St. Paul common stock "when issued."

Our attitude concerning trials by administrative bodies is well known. Editorially, we have demonstrated what we regarded as un-American methods of procedure before these bodies because they exercised multiform functions of investigator, prosecutor, judge and jury.

To correct this injustice, the Federal Administrative Procedure Act was passed. However, it is no secret that by administrative interpretation the safeguards of this Act are being methodically whittled away.

Despite the fact that there has been an organized attempt to stamp the NASD as a voluntary association, a reading of the Maloney Act, which gave this Association birth, makes it abundantly clear that it is but a supplementary administrative arm of the Securities and Exchange Commission. Its pre-trial and trial procedures are, therefore, subject to the same objection as the procedure of the Commission.

Returning to the Johnson trial, in the first place, we wish to make it clear that we take no position on the subject of the guilt or innocence of the respondent.

Those who presided at the trial and personally observed the witnesses were in the best position to make that determination. At least they were afforded the clearest opportunity for observation. Whether sincere advantage was taken of the opportunity is another question entirely.

Both the original hearing and the one on appeal were characterized at the time of the opening by a procedural announcement, in the course of which it was said, in effect, by the Chairman of the Trial Committee, in each instance, "We wish to emphasize that this Committee is not interested in matters comparable to the technical phases of a hearing in a court of law."

This announcement was unfortunate. Our experience has been that, frequently, it is used as a guise to deprive a defendant of his most elementary rights.

If trial procedures before administrative bodies were conducted under court trial rules, there would be a better chance to safeguard the rights of the parties and arrive at a just result.

It seems that the instant complaint arose out of the spleen of a salesman formerly employed by the respondent who asserted some claim for commissions which claim was not honored by the Johnson company because it wanted first to check all of his accounts. This was back of, but was not involved in, these hearings.

During the course of both hearings, this salesman was a witness which, of course, was perfectly proper in and of itself.

The impropriety lay in the fact that this salesman also acted as an advocate and was permitted to indulge in long and frequently irrelevant arguments none of which were

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The Prospects for a Bull Market

By A. J. CORTESE*

Asserting postwar boom has not yet developed general excesses of optimism which have to be liquidated, Mr. Cortese contends depression is not a nearby probability. Says a grossly expanded supply of money is being written into economy and that, even without a rearmament boom, dollar measurements of national income and corporate earnings will be for years or generations far larger than before the war. Pointing out that pessimism and caution have thrown stock prices backward in the general price upheaval, Mr. Cortese analyzes internal and external market conditions, which, he says, suggest that we are entering a bull market of major proportions.

Any attempt to appraise the future of the stock market ought to be a study of two quite different subjects One is the great mass of statistics that describe the economic and financial developments the net results of which are earnings and dividends. The other is the psychology of those who will participate in the market. The first, difficult and complicated as it is, is easier to estimate for the future than the second, but unfortunately, it is less relevant.

A. J. Cortese

Earnings and dividends have no direct relation to stock prices. One who had, in the first quarter of 1946, the sagacity to conclude correctly that earnings would steadily increase during the next two years, and who then bought, say U. S. Steel at 96, would have been dismayed to find his stock decline to 62. Stock prices are made not by statistics, but by human beings. When their sentiment is buoyant they will pay as much as 25 times annual earnings. When they are depressed they will sell them for as little as 10 times the earnings of a group of seasoned high-grade stocks.

Earnings are only one of the multitude of factors affecting sentiment, which is the predominant influence on prices. Another factor is the movement of the market itself. Nothing makes one bullish so much as a rising market and nothing makes him bearish so much as a falling one.

The Bearish Temper

For over two years we have been cautioned on all sides of the prospect of a slump in business ranging from a moderate recession to a severe depression. Businessmen and investors have been advised repeatedly for a long time that break-even points are rising dangerously, that labor is not so productive as it once was, that our exports must fall, that rising prices are getting beyond the reach of average incomes, that the cost of living is taking too large a part of incomes, that a declining rate of credit expansion foretells an inevitable fall in commodity prices and then total collapse, that we have been living beyond our incomes, that pipelines are now filled, that there is a shortage of equity capital for further capital formation, that the heavy industry boom must shortly end. When the boom ends, it is said, the decline will be drastic, as it always has been from an inflationary peak.

Throughout this time the prospects for peace have steadily deteriorated, confidence in the United Nations has been declining, at least four wars have continued, in China, India, Greece and Palestine and the "cold war" has become intense. The outlook for multilateral world trade has darkened. The bankruptcy of Great Britain threatens to force a host of nations into complex barter. Meanwhile, a discontented and tired world is moving toward greater government regulation of men's economic life.

We have been obliged to give our foremost aid to a socialist government that is narrowing the field of private enterprise. In the name of saving our free economic system we have resorted to a stupendous undertaking in regulation—that of price-fixing the main currencies of the world. The contradictions in our efforts not only in economic, but also in political affairs, have bewildered thoughtful people at home and abroad.

The warnings of our economists, the disordered political and economic conditions of the world, and the deadly struggle between the philosophies of free and managed economies are not the environment in which men indulge in excesses of optimism. We shall find later in our review that we have not yet witnessed any general optimism so great that it must soon be liquidated.

The Perverse Boom

In this depressing and unnerving environment, which has been fully expressed in the stock market, industrial production in this country has been rising for the past two years. On average, our production, as reported by the Federal Reserve Board, is now at almost twice the rate of the 1935-39 average. It is a boom primarily in the manufacture of durable goods, which is $2\frac{1}{4}$ times, while the manufacture of non-durable goods is less than twice, the rate of 1935-39. In spite of high costs, private and public construction, in terms of dollars, has been rising. The figures are $4.6 billion in 1945, $9.9 billion in 1946, and $12.8 billion in 1947. New orders, as reported by the Department of Commerce, rose during the latter half of 1947. Factory employment is $1\frac{1}{2}$ times as great, and payrolls are $3\frac{1}{2}$ times as great, as the 1939 averages. Department store sales, in terms of dollars, were in a rising trend throughout last year. Total consumer credit doubled from $6\frac{1}{2}$ billion early in 1946 to over $13 billion at the end of 1947. Corporations secured a total of $4\frac{1}{4}$ billions of new money in 1947 as compared with $3\frac{1}{4}$ billion in 1946. Of these amounts, $3\frac{1}{4}$ billion raised in 1947 were to be spent on plant and equipment as compared with $2\frac{1}{8}$ billion in 1946.

In terms of dollars, the gross national product rose throughout the two years, reaching an annual rate of $240 billion in the last quarter of 1947, as compared with $104 billion in 1929 and $90 billion in 1939.

The very size and acceleration, measured in dollars, of the postwar boom, apart from its duration or from any analyses of internal maladjustments, have alarmed many who fear an early repetition of the 1920-21 or the 1937-38 slump, and some few who expect a major collapse like that of 1929-32.

We are unable here to go into the theory of the causes of slumps. Countless fallacious studies have been written, heavily supported by imposing statistical analyses, to prove that various develop-

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*Mr. Cortese is associated with New York office of W. E. Hutton & Co.

Alester G. Furman Co. Completes 60 Years

GREENVILLE, S. C.—Alester G. Furman Co., Woodside Building, is this year celebrating 60 years of continuous service since foundation of the firm by Alester G. Furman in 1888. The firm which originally conducted a brokerage business in real estate and insurance began to act as broker in stocks and bonds with the establishment of the cotton mills and hydro-electric plants in South Carolina between 1900 and 1910. The business is now departmentalized as follows: Insurance (as agents, brokers and counselors); real estate (as brokers in sales, management, and mortgage loans); and investment securities (as brokers and underwriters). The personnel of each department confine their activities to their respective divisions.

Partners of the firm are Alester G. Furman, Alester G. Furman, Jr., Broadus Bailey, Harold O. Gaddy, Arthur C. McCall, Henry A. Brown, Mae B. Patrick, Lillian Harrison, Allen J. Graham, and Alester G. Furman, III.

The firm is distributing a most attractive illustrated brochure describing its history and personnel.

Renewed Inflationary Upsurge Not Inevitable

By ALAN TEMPLE*

Vice-President, National City Bank of New York

Prominent banker, though admitting Russia's policy is dominating domestic business outlook, sees counterbalancing deflationary and inflationary influences in situation. Urges both governmental and private prudence and restraint in conducting business operations. Concludes immediate business outlook good, but softening in spots.

The import of the analysis we have just heard is that the policy of Russia is dominating our domestic business outlook. We are all conscious that the ordinary influences in the business cycle are now superseded by extraordinary and portentous events, which are largely unpredictable in character or timing or both. Because of international developments, the Council of Economic Advisers fears a renewed inflationary upsurge, the Federal Reserve Board predicts it, and the Treasury stresses the danger that, through enlarged expenditure and tax reduction, it may soon be operating at a deficit.

Alan H. Temple

In uncertain circumstances we cannot be too fixed in our opinions, or too glib in our use of figures. As I interpret them, however, the facts at this moment do not compel us to the conclusion that a renewed inflationary upsurge is inevitable. In my judgment it is not inevitable, or even probable, that the Treasury's cash outlay will exceed its cash intake through June 30, 1949. It is not correct to use, as so many do, budget receipts and expenditures as the measure of the impact of government operations upon the economy. For what really matters is how much cash the government pays out to people and how much it takes in from them. The government's cash expenditures vary considerably from its budget expenditures. Such an item as the payment of interest to the social security funds, for example, is a book entry but not a cash payment. On the receipt side, the net cash received by the social security and other trust funds becomes available to the Treasury, although it is not and of course should not be counted as a budget receipt. Under conditions of full employment and high income, the government may show a balanced budget or even a budget deficit and nevertheless have a cash surplus.

The Executive budget presented last January, ~~before tax reduction~~ and increased defense requests but including ERP, would have yielded a cash surplus of $7 billion. This budget, moreover, probably under-estimated receipts. The Congressional Joint Committee on Internal Revenue Taxation, whose estimates of receipts frequently have been more accurate than the Treasury's, uses a figure $2.5 billion higher; and national income estimates now may properly be higher than they were in January. Congress also is voting some reduction in other items as an offset to increased armaments. It is entirely reasonable to suggest that, up to a few weeks ago, a cash surplus of $10 to $11 billion for fiscal 1949 was in sight. Against that we have now had a tax cut, which with refunds may cut into that margin more than $5 billions, and we should probably count on an increase of $3 billion in expenditures. Figuring conservatively, there is a margin of safety of $2 billion or higher for miscalculations and contingencies. The conclusion is that the Treasury is likely to continue to take away from people more money than it pays back to them. Treasury operations are swinging away from the deflationary character of the recent past, but it is not yet established that they will become positively inflationary.

A Federal deficit or surplus cannot be the whole cause of inflation or deflation, and our discussion should not oversimplify. But I have two other reasons for being less fearful of a new inflation upsurge than the government agencies are. We have agreed that the policy of Russia is very influential on our domestic business outlook. While we think we know what Russian policy is today we cannot be too sure what it will be tomorrow. If we assume that the Russian expansionist policy will not be carried to the point of a shooting war, we may find that our firmness will produce a period of at least superficial tranquility, during which Russian expansionism might be held in abeyance to await the great capitalist depression which all Marxian thinking expects. In that event we may feel more tranquil about our inflation danger here, and our plans and sentiment would be affected accordingly.

My third point concerns the impact of the increased expenditures and the tax reductions upon the economy. Adding together the estimated annual amount of the tax cut, $4.8 billion, and the increase of $3 billion in armament expenditures in the coming fiscal year we come out with $7.8 billion. This is barely over 3% of the total current production of goods and services. The current figure, bear in mind, includes net exports fully as large and perhaps larger than we shall have under the ERP and also defense expenditures at an $11 billion annual rate.

A new stimulating force of such amount must influence but may not dominate our outlook. It may be offset by opposite changes in the many other categories of production and income. While the business outlook ex-defense for the next 12 months is on the whole strong, it is softening in some spots, particularly in certain soft goods, in luxury business generally, and around the fringes of the home appliance business. If we look at the money supply, whose increase has been the primary

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*Abstract of address by Mr. Temple at the 36th Annual Meeting of the Chamber of Commerce of the U. S., Washington, D. C., April 27, 1948.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

A moderate advance occurred in total industrial production the past week with output modestly above the high level of the similar period one year ago.

Bituminous coal output, while it remained considerably below pre-strike levels, the supply was generally adequate for current industrial needs. It was also noted that deliveries of raw materials became more prompt than in previous weeks.

The return of the soft coal miners to the pits restored a greater semblance of normalcy to the production of bituminous coal and, in the week ended April 17, output as estimated by the Bureau of Mines, was 7,715,000 net tons, or an increase of 5,280,000 net tons over the preceding week. In the week ended April 19, 1947, however, output totaled 12,828,000 net tons and was 19.8% above production in the week ended April 17, 1948.

Bringing to a close the case against John L. Lewis and his United Mine Workers Union on Friday last, Associate Justice T. Alan Goldsborough on that day postponed "indefinitely" a sentence for civil contempt of court growing out of Lewis' failure to terminate the nationwide coal strike.

However, upon the government's request, Judge Goldsborough left the door open to punish the United Mine Workers' head and the union for civil contempt should the strike be resumed. The government's request was made on the ground that more than 85% of the soft coal miners had resumed work up to that time. On Monday of the current week it was reported by operators in leading coal states that production of bituminous coal had returned to normal following the walk-out that began six weeks ago.

* * *

The steel markets presented a strong tone the past week but talk of a likely general advance in prices soon has been stilled, for the moment at least, by last week's announcement of U. S. Steel Corp. that it had denied the substantial wage increase demands of the Steelworkers' Union and that, effective May 1, it was reducing prices on a wide variety of steel products, including wire and certain flat-rolled items, stated the magazine "Steel."

According to the trade paper, the price reductions, which vary in amount for the different products are estimated to total $25 million yearly based on 1947 shipments. The overall cut is more than twice as large in amount as the total increases last February in the corporation's prices for semi-finished steel.

The magazine pointed out that reaction of other producers to the Steel corporation's move was not immediately clear, the announcement seemingly taking the entire industry by surprise. Whether other major steelmakers would adopt a similar policy, both with respect to wages and prices, remains to be seen.

* * *

On Monday of last week General Electric also announced another price cut of 5% affecting $200,000,000 worth of its product. The previous cut was undertaken on Jan. 1, last, and was calculated to result in a saving of $50,000,000 to customers. The latest price reduction covering several items will amount to $10,000,000.

Touching upon the reduction, Charles E. Wilson, G. E. President, stated that the cut was made to combat inflation in spite of the fact that the products are in high demand.

Westinghouse Electric took similar action by reducing prices on certain of its products which will result in a saving to its customers of $3,125,000 a year.

Aided by seasonal weather, spring and summer merchandise attracted considerable consumer interest during last week. The total dollar volume of retail trade was moderately above the levels of both the previous week and the like week of 1947. Variety stores and mail order establishments reported an increase in patronage with requests for credit increasing somewhat in some areas.

There was a considerable increase in both initial and re-orders for seasonal merchandise with wholesale dollar volume moderately exceeding that of the preceding week and the corresponding week a year ago. Most retailers were primarily interested in replacing current stocks, and it was also noted that deliveries were prompt.

STEEL OUTPUT REBOUNDS TO 86.6% OF CAPACITY IN CURRENT WEEK

In the face of one of the heaviest freight rate increases and the possibility of bigger coal costs later this year the steel price cutting move by U. S. Steel looms as a far reaching decision, according to "The Iron Age," national metalworking weekly, in its current outlook of the steel industry.

A price cut in steel coincident with a refusal to raise steel wages was a point of discussion among U. S. Steel officials before the increase in semi-finished steel prices took place. There was no relation between the two items. But U. S. Steel had to decide if the relation they have built up with steel labor would stand the outright refusal of a wage increase even though some steel officials were privately sympathetic to the reasons for the wage demand, stated the magazine.

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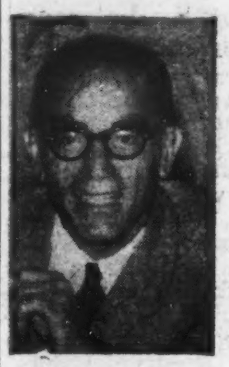
Observations . . .

By A. WILFRED MAY

The Economists Read the Ticker

Two months ago when the Dow Jones Average of Industrial Stocks was flopping around 165, a group of top economists and market analysts who meet periodically, voted 17-to-3 that the stock market outlook was *down*. Last week, *after an intervening advance of 10% in the average*, precisely the same group, on the basis of copious and well-documented reasoning, voted *bullish* by the identical majority.



A. Wilfred May

Similarly, several of the most highly-reputed investment companies during this year's first quarter of declining prices liquidated sizable portions of their portfolios pursuant to detailed economic reasons, only to re-buy after the subsequent market rise.

This conduct in the purest investment areas represents merely a timely example of habitual behavior which has been cited in this column; namely, explaining a market move by rationalization after the event.

These ex post facto reversals in market interpretation seem to follow three main courses: (1) Converse conclusions from identical facts, (2) Change of emphasis on the relative importance of different events, and (3) Complete abandonment of factors hitherto considered important. They pertain to successively contradictory interpretations by the same individual, not to opposing opinions by different commentators.

The Bearish-Bullish Wage Rise

A good example of (1) above is seen in the diametrically contradictory conclusions which the forecaster draws from wage rises. Midst recent bull movements geared to 1- to 2-million share days, rising wages have been hailed—to the traditional tune of "never sell the market on strike news"—as the guarantee of high purchasing power. On the other hand, when stocks are falling, those high wages are pessimistically stressed as the precursor of higher costs and reduced profit margins. It will be recalled that the railroad wage settlement of mid-1946 marked the peak of that entire bull market.

In a pessimistic stock market climate, lower commodity prices and deflation are regarded with alarm as a cause of inventory losses, while inconsistently, rising prices and inflation are also interpreted bearishly as a harbinger of higher costs, difficult break-even points, and of "statistical" in lieu of real profits.

Similarly in the case of the prices of finished products, during last year's bear stock market high prices were viewed with alarm as a medium of pricing consumers out of the market, while after the succeeding market rise they are now hailed as indicating denial of an oncoming depression.

Similarly we are again seeing the contradictory rationalizations about the war threat, as we did before and at the outbreak of World War II. During the recent bear periods "the Russian threat," with accompaniment of controls and a police state, was seen as a bugaboo to private enterprise. Now, coincident with the market's rejuvenation, the feeling has become prevalent that the imminent armament economy, stopping short of war and controls, will be a God-send saving us from the formerly-feared cyclical depression. **And now the speculator has happily banished from his mind worry over the final eventuality of a shooting war.**

ERP's Varying Importance

The changed attitude toward the European Recovery Program is another timely example of our above-cited category (2), namely, successive attachment of different degrees of importance to a long-existing event. Ever since last June when Secretary Marshall announced his plan at Harvard it was evident that some number of billions would be appropriated for foreign aid, resulting in a prop to our exports as well as to domestic industrial activity. Yet market-wise the "Marshall Plan" was persistently belittled as a drop in the big bucket of anticipated shrinking exports and depression.

As finally passed actually the ERP entails an export surplus of $2 billion less than was contemplated last October and, together with the armament plan, amounting to a total outlay of about $17 billion, surely cannot be controlling in an economy measured in terms of a $240 billion national income. Of the defense plan expenditure, even the inflation-warning Council of Economic Advisers said in its latest report: "In terms of its general impact upon the economy it is something the country could take in its stride." Nevertheless, in the present stock market climate which has been improved by a vigorous price rise, ERP is cited as a vitally important economic boon.

Illustrative of our category (3) of opinion-reversal based on extinction of factors hitherto considered important, is the bull-market forsaking of the fear of bust to follow inflated inventories profits, farm prices and consumer credit—the bugaboo which has

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Renewed Upsurge of Inflation Is Not Inevitable: Temple

(Continued from page 4)

cause of inflation, we find that while it rose a little last Fall it has declined this Spring, and it is not appreciably larger than it wa[s] a year ago. Pipelines hold mor[e] goods. Money is a little tighte[r], corporations are a little less liq[uid], construction costs are highe[r].

There are both deflationary an[d] inflationary influences in the bu[s]iness situation. At the mome[nt] they seem to be pretty well balanced. Experience teaches th[at] such a balance is precarious. Th[e] projections that can be made o[n] the basis of present facts, however, do not suggest that it wil[l] necessarily be upset for some tim[e] to come—either by violent infla[]tion or sharp recession. Thes[e] projections do not support the argument that new interventions o[r] controls are needed. They do suggest, obviously, that we conduc[t] our business, governmental an[d] private, with prudence and restraint. We ought to be examining our Federal spending more closely and dealing with it more resolutely than we are, for if we are taking on new obligations we cannot afford to carry on everything we have been doing. The tendency to accept our present volume of expenditure as untouchable is appalling. We cannot look forward with complacency to spending $40 billion a year, an[d] expect to continue to have the same kind of a free country.

With Oscar F. Kraft & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Oscar F. Kraft, Jr. has joined the staff of Oscar F. Kraft & Co., 530 West Sixth Street.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Sydonis B. Chance, previously with First California Company, is now with Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth St.

Noble, Tulk Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Van Lee McCamman is now with Noble, Tulk & Co., 618 South Spring Street.

Outlook for Electric and Gas Utilities

By A. F. TEGEN*

President, General Public Utilities Corporation

Maintaining welfare of utilities is bound up with pattern of business activity ahead, prominent executive stresses problem of equity financing in expanding equipment and services. Says SEC policy under Public Utility Holding Co. Act, together with public power projects, are depressing market of utilities shares, and foresees need of higher utility rates and revision of ideas on rate of return necessary to attract capital. Concludes, despite fog in which u ility equities are floundering, these securities have excellent appreciation opportunities.

The electric and gas utilities are experiencing new peak demands for their services. In many cases such demands exceed even recent estimates. The large disparity between the resale prices of natural gas and of coal and oil has accelerated plans for taking more gas to the industrial and large city markets. To meet these demands and to catch up with construction deferred during the war, electric and gas utilities have embarked on an ambitious construction program. Such construction must be paid for. This has given rise to fears in investment circles that utility securities and especially equity securities will be under pressure and, hence, may not be attractive as investments. This story will concern itself with the idea that the construction program can be carried out and paid for and that many utility equities do in fact present attractive investment opportunities.

A. F. Tegen

*A paper by Mr. Tegen presented to the Analysts Club of Chicago, Chicago, Ill., April 21, 1948.

While the welfare of the utilities does not follow the exact ups and downs of business activity, it is none the less important to frame any guess as to the current outlook for the utilities within the pattern of business activity which may lie ahead. This is especially significant at the moment since we are still in a period of rising prices and if business activity holds at a high level, the utilities may expect increasing revenues, which in turn will enable the utilities to absorb some of the price increases. I recognize that there are divergent views as to what lies ahead but I prefer the view of Sumner Slichter of Harvard, which he stated in February, as follows:

"The drastic drop in grain prices has greatly strengthened the economy and has improved to some extent the prospect that the country can get back to normal activities without experiencing a bad recession. Grain prices, of course, are still high and will sooner or later drop further. Both corn and wheat are still substantially higher than they were a year ago. The drop in grain prices, however, has occurred at a time when it is not likely to be contagious. It has undoubtedly put an effective damper on speculation in grains. Furthermore, it has given the country a vivid example on a small scale of the aftermath of inflation. This will promote a spirit of caution among business men, and if at some later time the rapid rise in bank credits is resumed, perhaps this example will cause the public to insist on a more vigorous policy of control by the Federal Reserve Banks than was pursued in 1947. Thanks to the recent drop in grain prices, every business man can today view the immediate future with definitely greater optimism than would have been warranted a month ago."[1]

Sales and Revenues Are Increasing

We must necessarily begin our guess of the outlook for the utilities by making a guess of the prospects for continuing markets. Opinions will differ. What is more, the experience of individual companies will vary. It seems to me that economic conditions over the next several years will be such that the utilities will experience continuing revenue gains. Aside from that, the increasing disparity between prices for utility services and coal and oil (which are competitive fuels) will add to the prospect for increasing sales. Almost every day new uses for electricity and new demands for gas are developed. Hence I look for a continuing demand for electricity and gas although I would not expect the recently experienced rate of increase to be maintained. Demands for electricity and gas in our system continue at high levels. Although the rate of increase experienced last year was higher, we expect to meet increased loads in the months ahead. If our national economy has entered a deflationary cycle, we do not see signs of it. Of course, prolonged strikes or other interruption of production will alter the situation.

One further aspect regarding sales prospects deserves attention. The assumption is widespread that the utilities are enjoying sales vastly inflated by the war. It is true of course that there was a substantial expansion of defense needs but the fact is often overlooked that the growth of many companies had set in **before** the war and that continued expansion from here on out need not therefore be discounted on account of increased sales which re-

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1 New York "Times" Magazine.

Creative Enterprise vs. Government Controls

By EARL O. SHREVE*

President, Chamber of Commerce of the U. S.

Mr. Shreve pleads for minimum government controls of business and more economy in government. Cites heavy expenditures on Federal works projects and says inflation threat still shadows our hopes for stability and prosperity. Lauds free markets as best way to end black markets.

America draws her economic strength from her natural resources . . . from the breadth of a continental market unhampered by trade barriers . . . from the vigor, the resourcefulness and the ambitions of her 145 million people . . . from the enterprise of freedom . . . from the application of science and technology . . . from the fact that freedom has ever been our national goal.

Earl O. Shreve

The creative forces of enterprise can be encouraged by a minimum of government controls . . . by wise tax laws . . . by cooperation to expand international trade and production.

There never has been a time when the government needed to exercise such care before contemplating new business controls on pleas of emergency.

The cut in individual income taxes was an overdue step toward overall tax revision. Federal tax laws still need thorough overhauling to encourage capital investment.

Economy in government is essential to the security of the nation. The obligations of world leadership are costly. All of us will have to sacrifice. I want to take this occasion to say that businessmen should take the lead in restraining their communities from seeking Federal outlays of money for local and area projects that well can wait.

Businessmen must look at the larger picture. Government funds for development of new facilities may benefit communities, but the larger national interest should come first. It is the accumulation of widespread demands that threatens our national fiscal security.

The volume of the major federal works projects that are now sought throughout the country is in itself staggering. Yet, on top of the larger projects, there are innumerable demands for lesser amounts.

The area or community which seeks what it may regard as an entirely modest amount for itself overlooks the fact that literally thousands of others likewise are seeking appropriations.

The Federal budget for fiscal year 1949 shows civil works projects estimated to cost at completion more than $17 billion. Some of these already are in progress, and all are scheduled for completion within a few years.

In addition to that, $9½ billion reserve of projects has been authorized. Furthermore, Federal agencies have indicated that they intend recommending still another $9 billion of proposed construction. The figures I have given you total $35½ billion!

And I am not through. Still other proposals from state and local governments swell the amounts authorized and requested for Federal works to the astronomical total of more than $50 billion. And, the end is not in sight!

How can our government, no matter how rich, consider seriously meeting such demands? And how can people, who ask for a sound Federal fiscal structure, consistently make such demands? Is it not time that we be realistic in our approach to our fiscal problems if we are to remain strong in this critical period in world affairs?

The threat of inflation still shadows our hopes for stability and prosperity. Never was there a greater need for economy in government . . . for a determination to forego things that may seem so desirable for regional development.

We must resist inflation. The winter break in commodity prices seems in retrospect, but a correction of the major uptrend . . . rather than a decisive reversal.

Yet, as supply lines fill up and accumulated orders decrease in many lines of business, competition begins to increase. Competition is salutary to the country . . . for the consumer . . . for business.

The current tremendous production of food and factory goods in the United States is a tribute to the genius of enterprise. Again, it serves to show that a free market is the best way to restore balance between supply and demand . . . to end black markets . . . and to restrict gray markets."

*From an address by Mr. Shreve at First General Session of 36th Annual Meeting of the Chamber of Commerce of the U. S. Washington, D. C., April 27, 1948.

Leroy Lincoln Director Of Chase Nat'l Bank

Leroy A. Lincoln, President of the Metropolitan Life Insurance Co., was elected a director of the Chase National Bank at a meeting of the Chase board on Wednesday, it was announced by Winthrop W. Aldrich, the Chase Chairman. Mr. Lincoln succeeds Frederick H. Ecker, Chairman of the Metropolitan Life, who had been a member of the Chase board for 31 years prior to his resignation yesterday. Mr. Ecker will maintain his close affiliation with the Chase National Bank by serving as a member of the real estate committee of the bank and as a member of the advisory committee of the bank's Metropolitan Branch.

In accepting Mr. Ecker's resignation, the board passed a resolution of appreciation for his unique and outstanding service to the bank.

Mr. Lincoln has been President of Metropolitan Life since 1936 and an officer of the company for 30 years. He is President of the Life Insurance Association of America and is Vice-Chairman of the Life Insurance Medical Research Fund. He has served as Chairman of the Institute of Life Insurance and as President of the New York State Chamber of Commerce in recent years. Mr. Lincoln is a member of local, state and national bar associations.

With Clark Davis

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Walter B. Wilson, Jr. is with Clark Davis Company, Langford Building.

From Washington Ahead of the News

By CARLISLE BARGERON

CLEVELAND—The absurdity of the direct primary was never more exemplified than in the fight here in Ohio between Taft and Stassen for 23 of the State's Republican Presidential delegates.

The claim of those "Liberals" of another day who put over the direct primary was that it gave the "people" right to name the nominees as well as the office holders. The party nominees had formerly been chosen, as they still are in some states, by the party convention. I suppose there are but a few students of government who would deny that the caliber of our members of Congress has dropped. The direct primary has eaten away at the two party system in that it has broken down party discipline. For example, a man like the late George Norris of Nebraska was able to remain in the Senate for years as a Republican when he was nothing like one.

Carlisle Bargeron

Here in Ohio, the Taft-Stassen contest is not likely to be determined by Republican voters. It is their primary and should be determined by them. They are the ones who are going to vote Republican in November. They should be the ones to vote now upon the question of who that man in November will be.

What is likely to happen, though, is that the contest will be decided by voters who intend to vote in November for Truman or whoever is the Democratic nominee. What it is believed they may do next Tuesday is to simply go into the Republican primary to muddy it up, and particularly to get revenge against Taft whom they intensely dislike.

The contest, it should be understood, is in only 11 districts, predominantly industrial and Democratic. Stassen is also contesting for one of the delegates-at-large, but essentially he is trying to pick up 22 of the State's 58 delegates from Democrats, at least from Democratic strongholds.

As I reported last week, there is a drawback to his strategy in a bitter gubernatorial fight within the Democratic primary. This should tend to keep the Democrats in their own party.

But organized labor has made the man who stands as co-author of the Taft-Hartley Act No. 1 on their purge list. They have announced ambitious plans of raising millions of dollars to defeat every member of Congress who voted for the bill. But that would entail purging more than two-thirds of the Congress, and privately they have laughed at the absurdity of such a program. There were definite indications that they were to be made monkeys of, in fact.

Little did they dream, however, that the greed of politics would give them such an opportunity as Stassen, originally just as much for the Taft-Hartley Act as Taft, as, indeed, he would have to be to claim Republican support, and who fathered labor legislation in his own state more severe—little did they dream he would come along and give them such an opportunity as he has.

Taft's admirers are frankly worried. Labor circles are quite hep to Stassen's labor record. They say quite frankly that there is not the slightest for them to chose from as between the two men. They go even farther and express their personal admiration for Taft and their regard for him as a square shooter.

But the tendency, at least among the CIO, which is more of a political than labor movement, to get revenge against Taft is so strong as to be almost irresistible.

It will be more than just getting revenge against him, too. It will be an effective throwing of labor's weight around. Passage of the Taft-Hartley Act by such an overwhelming vote showed that labor had lost its hold on Congress. If Taft takes a licking out here, you can bet your boots that it will have its intimidating effect on Congress as a whole.

Taft will be considered to have suffered severely if Stassen should pick up as many as 12 or 14 of the 23 delegates he is seeking. It is not of so much importance, at this stage, either as to the bearing it will have upon his Presidential chances. It is doubtful if he, himself, looks upon them seriously any more. What is involved here is his Senate leadership; indeed, the conservative leadership which has dominated Congress recently.

The fight is attracting plenty of newspaper attention. Some 20 newspapermen are traveling with Taft, and there was a similar group with Stassen.

The propaganda that would follow the Senator's defeat, to the extent I have mentioned, would be tremendous. Stassen's candidacy would, of course, take on considerable added momentum. But I doubt that that in itself would be important because what he has done out here, is probably sufficient to insure his not getting the Republican nomination.

But there would be all sorts of propaganda to the effect that the Republicans have been too conservative—they just must be a little more liberal.

The basic facts are that the primary outcome will not have meant a thing except that one clever candidate knew how to play a dirty trick on another one and in such a way as to strike at the party's strength.

G. H. Fox Is Now With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Gerald H. Fox has become associated with

Gerald H. Fox

Merrill Lynch, Pierce, Fenner & Beane, 411 North Seventh Street. He was formerly for a number of years with G. H. Walker & Co.

With First California Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—Charles M. Peters has become associated with First California Co., 9437 Santa Monica Boulevard. He was formerly with Bourbeau & Douglass and prior thereto was an officer of Atlas Securities, Inc.

Significance of Recent Economic Developments

By RAYMOND RODGERS*

Professor of Banking, New York University

Professor Rodgers holds there is a mighty tug-of-war between forces of inflation and deflation. Cites, as inflation force, increase in money and expansion of credit, to which is added heavy government expenditures resulting from rearmament and ERP. Against this, there is increasing production, accumulation of inventories, and reduced saving from current income. Concludes, sooner or later, inflation merry-go-round will end, and a postwar break in prices may come, but this does not mean we are headed for a crash.

Everybody is making plenty of money these days. Everybody who wants to work has a job. Why there are even many who don't want to work, who have jobs! (Nothing personal, I assure you!) And, that's what I call over-employment!

Not so long ago, a gentleman who can hardly be said to be famous among businessmen for his practical approach to business problems, wrote a book setting a goal of 60,000,000 jobs for America. Considered a dream by many at the time it was proposed, we actually exceeded this goal, with a total employment of 60,079,000 last July. Although employment has since dropped to some 58,000,000 it is still in the stratosphere by pre-war standards. As wages are at the highest level of all time, it is not surprising, although it is amazing, to find that personal income, before taxes, climbed to the astronomical total of $200 billion in 1947.

Raymond Rodgers

We are indeed riding "high, wide, and handsome." Prosperity, measured by most standards, has reached unbelievably high levels—yet people are worried! What is the explanation of this paradox? Are these pessimists pathological Gloomy Guses who would worry if the streets were really made of gold, for fear that someone would steal them? Or could it be that they are recalling too well one of the basic laws of the Universe, namely, that for every action there is an equal (and opposite) reaction? Or possibly they belong to that great company of white collar workers with relatively fixed salaries and those living on fixed incomes, whose standard of living has been drastically lowered by higher taxes and sky-rocketing prices.

But, whether their gloom is pathological, or arises from direct personal sacrifices, or is caused by objective scientific observation, the result will be the same: Business will be adversely affected!

Let us now evaluate some of the more important forces loose in the world today to see whether we want to "view with alarm" and if so, what is even more important, how much alarm?

On the international side, there have been many recent developments and they have practically all been bad. Wendell Wilkie's One World, has definitely split into two worlds and they are getting farther and farther apart. Under the leadership of the Soviet Union an idelogical battle, which has reached the proportions of a "cold" war, is being waged on the United States and other nations which advocate the principles of free enterprise, freedom of the individual, and true political democracy. The relentless way the Russian steam-roller has driven ahead in the last two years has caused many people to fear that another war is "just around the corner."

Fear of War

This fear, in my opinion, is unwarranted. The last thing in the world the Russians want is war with the United States. The Russians are realists; and they have a good spy system. In fact they probably know more about our power and might than we do ourselves. They also know about their own economic and political weaknesses. They are having plenty of economic trouble at home. Indisputable proof of their difficulties was the decree of last Fall, wiping out nine-tenths of the liquid wealth of their citizens in the fight on inflation. In addition, they have Czechoslovakia, Poland, and the Balkans to digest—that will take a while. So, I repeat, in my opinion they will try to go just as far as they can with us, short of war, but the moment we get really tough they will stop. I do not anticipate that we shall draw any serious issues with them while the Presidential election is under way; but after the first Tuesday in November—no matter who is elected—I would advise the Russians to stop shoving!

In the meantime, we have the critical problem of how we can best give the friendly nations of Western Europe economic and political assistance in their efforts to check communism through rehabilitation of their economies. Obviously, any assistance given unless very carefully handled, increases the inflationary pressures in this country. Likewise, the more inflation we suffer in this country, the less real assistance in the form of goods we can give England, France and Italy. The problems of European relief and inflation as a practical matter, cannot be separated.

Inflation Still a Problem

And, inflation is still a problem. The February break in the grain markets which was the sharpest in the 100-year history of the Chicago Board of Trade caused many people to think that we had reached the end of the inflation road and that deflation would promptly get under way. While it cannot be denied that inflation is no longer a lion raging in the streets as was the case before the grain price break, the fact remains that great inflationary pressures remain in our economy and still other inflationary pressures are in the making.

The greatest potential inflationary pressure is the enormous increase in money and bank deposits. During the war period, "folding money" in the hands of the people increased from $6,401,000,000 in December, 1939 to $26,600,000,000 in December, 1947. By way of comparison, $3,639,000,000 did the "money work" in 1929 and that was the end year of a roaring boom. Total bank deposits (demand and time, adjusted) increased from a December, 1939 figure of $57,698,000,000 to a December, 1947 total of $144,600,000,000. Or taking demand deposits (adjusted), which function as money even better than the "folding money" mentioned before, we find an increase from $29,793,000,000 to $86,900,000,000 for the same period.

Pocket money is thus more than four times its pre-war volume and demand deposits are three times the pre-war level. While these increases are enormous, it should be clearly understood that they are passive, that is, other than psychological influence, they affect business activity only to the extent that they are used. To the extent they have been used, they have been the primary means of inflation, but they were not the real cause. By the same token, huge deposits and pocket money will not prevent inflation, or even cushion the recession, unless they are used by the public. In human affairs, inclination is the criterion—demand is the controlling factor.

(Continued on page 45)

*Address by Professor Rodgers before Group I, New York State Bankers Association, Buffalo, N.Y., April 24, 1948.

The Venture Capital Problem

By ALLAN M. POPE*

Chairman, Finance Committee, New York University

Colonel Pope holds there is no shortage of capital, but rather unwillingness to risk it for venture purposes because of lack of incentives. Blames weakening of corporate structure in New Deal Era as well as double taxation and inadequate depreciation allowances permitted by tax laws. Attacks competitive bidding as hampering sale of equity securities and squeezing last dollar out of dealers and investing public. Pleads for government and politics friendly to industry and labor alike, and lays inflation threat to government extravagance.

I am scheduled to speak to you on "The New Problems We Face in Supplying Venture Capital." I am likewise limited very properly to the domestic scene as I am sure I could talk for hours on the same question in the foreign field which I personally think is of equal importance to us in this country now and may be of even greater importance later.

Allan M. Pope

Domestically then I am convinced that we are not faced with a shortage of equity money but we are woefully lacking in incentives to use it. Even a murderer must be shown to have some incentive and you can likewise kill off a potential equity investor for the lack of it. Obviously then we are facing a quest for incentives not pockets of money.

The moment we start looking for incentives we stumble over, right at our doorstep, the question of taxation. When we take even a casual look at the forces in our tax situation deterrent to incentive to invest money in equities we run head on upon one after another of laws passed primarily over the last 15 years which are designed to foster, in my personal opinion, some kind of a state of which I heartily disapprove so I call them plain New Deal Era undertakings to identify them with an *era, not* a political party. Perhaps you too may thereby know better just what I mean.

I will only refer, in a very general way, to the tax laws as they affect newly formed enterprises to be financed with equity money which is the usual and often the only way possible. However, what applies to old and tried corporations applies in many respects to new undertakings once organized and operating. One eminent speaker talking on this particular subject recently devoted almost his entire talk to showing that on the assumption that investment in one out of eight or ten new enterprises works out successfully in the long run and proved to my satisfaction that because our government takes a substantial part of our profits and we take the losses, the gambler, for such undertakings are a gamble, is as well off playing a roulette wheel even with a double zero. That condition certainly limits the incentives of a prospective investor.

Lack of Incentives

I shall now discuss the lack of incentives to attract equity money to finance well-established undertakings.

Destruction of Incentives

In the first place in the New Deal Era the theory was to weaken the corporate structure. One way was to legislate against the accumulation, by a corporation, of earnings and Article 102 came into being. That particular Article has been used as a club. The result is that every corporation is advised by its lawyers to be careful not to accumulate earnings beyond a certain point which does not usually permit holding back enough from stockholders to properly build a firm backlog of capital funds particularly when the restrictions on reserves for depreciation are daily creating the necessity for the use of more new capital to replace old structures or repair them at the new price levels. Two things here seem important; first rescind Article 102 and then, if it is found necessary to prevent misuse, in some few instances, of accumulated earnings for ulterior reasons replace 102 with an article which specifically enumerates the abuses which create tax avoidance thus removing the club hanging over those who should retain some earnings from the stockholders who own them and have a right to protect their own business with them against possible hazards. Stockholders should also have the right to prevent their corporation from seeking new equity money for replacements and expansion when earnings could suffice. Any stock that is listed implies broad ownership which substantially eliminates abuse of accumulated earnings by a few bent on possible tax avoidance. It is sugested therefore that listed stocks might be exempt from Article 102.

The second point is to review the present system of basing reserves for depreciation upon the present per cent of original cost which today is an entirely inadequate formula for practical purposes in this period of mounting building costs.

So we have found two deterrents to investors due to tax laws because they prevent operations of a corporation along sound business lines.

Another tax law which militates against sound business procedures, and anything that so acts is detracting from the incentive to invest in equities, is the law which makes it cheaper to hire money through issuing fixed interest bearing securities than to sell stock. This reason stems from the ability to deduct as an operating expense interest charge thereby reducing the income tax while paying taxes on the earnings from which dividends are paid. This is again a structure weakening law discouraging to equity investors for it certainly is safer to finance on equity money than on notes and bonds and to do so should not be definitely discouraged. I also remind you that big sinking funds may become very troublesome. It is sufficient here to draw attention to the fact that by forcing bond issues to become the cheapest means of financing for a corporation the government is losing sight of the fact that such bonds are more and more finding their way almost exclusively into the vaults of institutions who are hungry for investments and cannot buy equities, which institutions pay little if any income taxes to the government. I think such provisions are a losing game for the government and are again militating against sound financing which obviously detracts from the incentive that a prospective equity buyer needs.

This same item in the tax structure brings us directly to the question of double taxation, a tax on corporate earnings and a tax on individuals' incomes derived from corporate dividends. This is an obvious blow at incentive. It has been discussed enough to need no detailed arguments here. It should be said, however, that it is peculiarly characteristic of the New Deal Era legislation as it squeezes out the incentive to individuals to buy equities, the individual being the major buyer, making it more plausible for the government, some day, to step in and finance industry.

This tax law again is so obviously unfair and wrong; it has so generally been avoided by our states, that it seems ridiculous not to modify it at least by taking out the bad features and substituting what may be reasonable features such as providing a flat tax on income from dividends which will not take away most of the incentive from people with much of the equity money available. For example, those in high tax brackets pay perhaps 75 or 80% of their income from dividends to the government. The law as it stands is not even soaking the rich. They know what to do. It is soaking the corporations owned by millions, among them millions of low income groups, by possibly preventing their corporations from getting any equity money at all or making them pay too much for it. This law is perhaps the biggest deterrent to incentive to invest in equities yet devised. Urge the repeal or modification of this tax if you or your company want to increase the supply of available equity money and reduce its cost.

The Capital Gains Tax

Briefly I will refer to the capital gains tax. It is nearly useless as a revenue producing agency. It has apparently been found of no value in England or in Canada for they have never had one. What it does to incentive directly is to discourage buying or selling even when to sell and to buy would be, without such a capital gains tax, highly beneficial. Discouraging buying and selling reduces market activity, lessening therefore marketability which tends to reduce values which lessens the incentive to invest in equities. It is one of those taxes which give every appearance of being subject to the law of diminishing returns. Its worst feature however is the legitimate use of this tax to avoid larger income taxes. Thus the government by competing with itself for revenue appears to be betting on the wrong horse.

In closing the subject of the effect of particular present tax laws in directly reducing incentive, let us examine the overall effect. Individuals are gradually disappearing as buyers of interest bearing securities as a result of income taxes. They cannot save enough so they buy insurance and annuities instead. Insurance companies then do their investing for them and as there are relatively few insurance companies compared to individuals it results in placing the buying power in the hands of a relative few and it narrows down to whether or not the insurance companies are willing to purchase an issue of bonds to determine the success or failure of the issue. Although this may appear aside from my subject I must say that it affects equity money in addition in that when

(Continued on page 48)

*An address by Colonel Pope before the 36th Annual Meeting of the Chamber of Commerce of the U. S., April 28, 1948. Colonel Pope was previously President of The First Boston Corp.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Fertilizer Industry — Study in spring issue of "The Index"—New York Trust Co., 100 Broadway, New York 15, N. Y.

Fire and Casualty Insurance Stocks—Comparison of earnings of principal issues for 1947—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Freight Rates—Current circular—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available are circulars on **Kansas City Southern; New York, New Haven & Hartford,** and a leaflet of **Railroad Developments of the Week.**

Market—Leaflet on current situation and a list of interesting low-priced speculative stocks—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Oil Stock selling under $3—Statement—S. R. Melven & Co., 125 Cedar Street, New York 6, N. Y.

Railroad Industry Modernization—Data in "Fortnightly Investment Letter"—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also in the same letter are brief memoranda on **American Tobacco Co., American & Foreign Power, Western Maryland Railway,** and **Chicago, Terre Haute & S. E.** In the current issue of their "Fortnightly Financial & Economic Review" the firm has an analysis of the **Atlantic Refining Co.**

Railroads—Memorandum—Stern & Co., 25 Broad Street, New York 4, N. Y. Also available is an analysis of **St. Louis-San Francisco Railway Co.**

Rayon—An Essential Industry for Palestine—Survey—Palestine Rayon Corp., 65 Reade Street, New York, N. Y.

What to Buy?—Easy-to-read memo highlighting a dozen interesting stocks for retail—H. M. Byllesby & Co., Stock Exchange Bldg., Philadelphia 2, Pa.

* * *

American Machinery Corp.—Circular—Gordon Graves & Co., 30 Broad Street, New York 4, N. Y.

Berkshire Fine Spinning Associates, Inc.—Memorandum—Kalb, Voorhis & Co., 25 Broad Street, New York 4, N. Y.

Also available are circulars on **Brown & Sharpe Manufacturing Co., Commercial Credit Co., Commonwealth Gas Corp., Grinnell Corp., Lanova Corp.,** and **Nicholson File Co.**

Beryllium Corp.—Article—Coffin, Betz & Sullivan, 123 South Broad Street, Philadelphia, Pa.

Bingham-Herbrand Corporation—Memorandum—Wm. J. Mericka & Co., Inc., Union Commerce Building, Cleveland 14, Ohio.

Clearing Machine Corp.—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Compo Shoe Machinery—New report—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Cumberland Gas Corp.—Circular—C. D. Robbins & Co., 810 Broad Street, Newark 2, N. J.

El Paso Electric Co.—Memorandum in current issue of "**Preferred Stock Guide**"—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

International Detrola Corp.—Circular—Bond & Goodwin, Inc., 63 Wall Street, New York 5, N. Y.

Metal Forming Corp.—Current bulletin—First Colony Corp., 52 Wall Street, New York 5, N. Y.

National Gas & Electric Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Also available is a circular discussing the **1948 Railroad Earnings Estimates.**

Oil Exploration Co.—Data—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Parke, Davis & Co.—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Portsmouth Steel Corp.—Data—Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

Also available are data on **Central Illinois Public Service Co., Maryland Drydock and Seminole Oil & Gas.**

Public National Bank & Trust Company of New York—First Quarter Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Red Rock Bottling Co. of Cleveland—Descriptive circular—Elbert and Yeropoli, 62 William Street, New York 5, N. Y.

Westgate-Greenland Oil Co.—Statistical memorandum—Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

James M. Ferney Now With Hemphill, Noyes

PITTSBURGH, PA.—Hemphill, Noyes & Co., member of the New York Stock and Curb Exchanges, announce today that James M. Ferney is now associated with them as a registered representative in their Pittsburgh office, 717 Liberty Avenue.

James M. Ferney

For the past year Mr. Ferney maintained his own business in Pittsburgh and prior to that was the Pittsburgh representative of G. A. Saxton & Co., Inc.

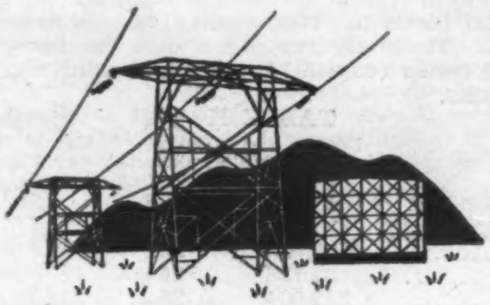
Wm. F. Mills With Phila. Nat'l Bank

PHILADELPHIA, PA.—William F. Mills will become associated with the municipal bond department of The Philadelphia National Bank on Monday, May 3. He was previously with Graham, Parsons & Co. Philadelphia office.

Hanshue Rejoins Blyth

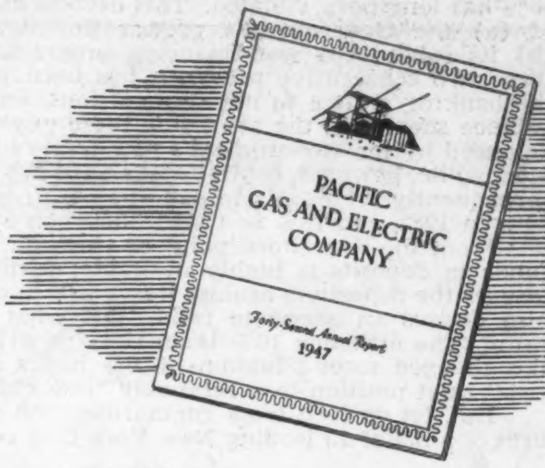
(Special to THE FINANCIAL CHRONICLE)

SACRAMENTO, CALIF.—Jerome F. Hanshue has rejoined the staff of Blyth & Co., Inc., California Western States Life Building. He has recently been with Conrad, Bruce & Co.



PACIFIC GAS AND ELECTRIC COMPANY

Highlights of the 42nd Annual Report 1947



REVENUES

Stimulated by the large increase in service outlets and high levels of production and employment, gross revenues advanced $16,306,000, or about 10%, to a record total of $184,587,000. The Company's charges for gas and electric service to the vast majority of customers remained unchanged during 1947 and were well below prewar levels. Certain rate schedules covering service to industrial and commercial customers were adjusted to reflect increases in fuel oil prices.

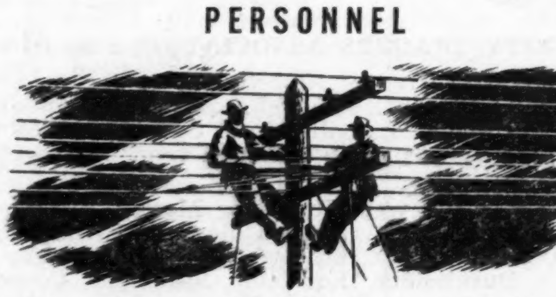
SALES

Sales of electricity turned sharply upward in 1947, reaching a new peak of 8,473,000,000 kilowatt-hours, an increase of 953,000,000 kilowatt-hours or 12.7% over 1946. In 1947 residential electric customers used an average of 1572 kilowatt-hours of electricity. Average revenue received from this class of service was 2.61 cents a kilowatt-hour, 19% below 1940. For the 31st consecutive year the volume of gas sold established a new high record, totaling 147,991,000 cubic feet.

CUSTOMERS

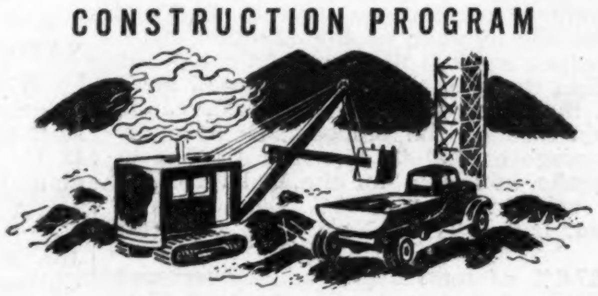
There was a net addition of 125,798 customers to our lines during the year. This gain far exceeded that in any year in our history, and was more than double the average annual increase in the preceding ten-year period. For the first time the number of customers passed the two million mark and by the end of the year service was being supplied to a total of 2,017,474 customers. Of these, 1,137,398 were electric, 863,542 gas, and 16,534 water and steam customers.

PERSONNEL



The Company's expanding volume of business and accelerated construction activities required the addition of 2,295 employees during the year. On December 31, 1947, there were 15,735 men and women on our payroll. Total payrolls of both operating and construction forces were $57,415,000, an increase of $14,428,000. About three-fifths of the increase was due to the larger number of employees and the balance to higher wages and salary rates in effect.

CONSTRUCTION PROGRAM



Our construction program has gained momentum despite delays caused by the inability of manufacturers to deliver equipment on schedule. Total expenditures for construction in 1947 reached $100,302,000. Special emphasis was placed on increasing electric generating capacity. Our program calls for the installation of an additional 1,400,000 horsepower of electric generating capacity by 1951, of which 525,000 horsepower will become available within the next twelve months.

STOCK OWNERSHIP

At the close of the year the Company had 141,293 stockholders, or 2374 more than a year previously. The list of stockholders included 59,000 women, 38,000 men, 28,000 joint tenancies, 12,000 trustees and other fiduciaries and 4,000 corporations, partnerships and institutional investors. Holdings averaged 90 shares or $2250 par value per stockholder. For every employee on its payroll, the Company has nine stockholders or direct owners.

EARNINGS

Earnings for the common stock were $2.57 per share on an average of 6,565,358 shares outstanding during the year. These earnings compare with $2.72 per share in 1946 on 6,261,274 common shares outstanding throughout that year, and with an average of $2.37 per share during the past five years. Cash dividends on the common stock were continued at the annual rate of $2.00 per share which has been in effect for many years.

NINETEEN FORTY-SEVEN was the 94th year of operations of the Company and its predecessors. Measured by any standard, it was the busiest period in our long history.

The year's operations reflect the unprecedented growth of polulation and industry in Northern and Central California during and after the war. Since the 1940 census the population of the State has increased over 3,000,000, chiefly as a result of one of the great mass migrations of history. About one-half this growth occurred in the 46 counties into which our lines extend. The Company is continuing its efforts to extend service as rapidly as possible to new homes and industries in this area.

J. B. Black

President.

PACIFIC GAS AND ELECTRIC COMPANY

245 MARKET ST., SAN FRANCISCO 6, CALIF.

A copy of our 1947 Annual Report to Stockholders may be obtained on application to E. J. Beckett, Treasurer

George E. Jaffe Forms Own Firm in Cleveland

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — George E. Jaffe has formed G. E. Jaffe

Geo. E. Jaffe

and Company with offices in the Union Commerce Building to engage in the securities business. He was formerly with Skall, Joseph, Miller & Co. and prior thereto with W. P. Quinn and Co.

J. F. McKillips, Jr. Joins Steiner, Rouse

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—James F. McKillips, Jr. has become associated with Steiner, Rouse & Co., 205 Carondelet Street. He was previously with Charles E. Corrigan, Jr.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Bank Stocks

The Federal Deposit Insurance Corporation is reported to be concerned over the continued decline in the ratio of total capital funds to total deposits of insured commercial banks. The traditional 10% has long been violated. This decline has come about as a result of (a) the Government's prewar deficit financing program and (b) its subsequent war-financing program. The primary effect of these two consecutive programs has been to inflate the deposits of the banking system to huge proportions, on the liability side of the balance sheet. On the asset side these expanded deposits have been balanced by the Government's new issues of securities, as collateral. Meanwhile, however, capital funds have not expanded proportionally, consequently their ratio to deposits has dropped from approximately 20% in 1932, and 15% in 1936 to between 5% and 6% in 1946.

From the depositors' point of view, an adequate ratio of capital funds to deposits is highly desirable; furthermore, since the FDIC insures the depositors against losses within certain limits, this agency also desires an adequate ratio. But what constitutes an adequate ratio? The orthodox 10% is no rigid criterion, especially in view of the changed asset situation of the banks, from a relatively "high risk" asset position to a relatively "low risk" asset position.

But, let us turn from generalities and examine the specific figures of a list of 15 leading New York City commercial banks.

TABLE I
Ratio, Capital Funds to Deposits

	Before War Dec. 31, 1936	Close of War *Dec. 31, 1945	Current Mar. 31, 1948
Bank of Manhattan	8.9%	5.0%	6.3%
Bank of New York	10.4	6.5	9.0
Bankers Trust	10.4	8.2	11.5
Central Hanover	10.0	6.4	9.0
Chase National	9.9	5.2	7.5
Chemical Bank	12.5	6.6	9.4
Corn Exchange	9.9	4.8	5.8
First National	22.2	16.6	26.3
Guaranty Trust	15.4	9.5	15.6
Irving Trust	18.5	8.5	11.5
Manufacturers Trust	13.3	4.4	6.0
National City	7.8	5.2	6.6
New York Trust	10.8	6.8	10.4
Public National	9.3	4.9	5.9
U. S. Trust	40.0	21.8	26.3
AVERAGE 15	13.9	8.0	11.1
†AVERAGE 13	11.3	6.3	8.8
Loans: Percent of Total Assets	27.6	22.3	27.0
Gov'ts: Percent of Total Assets	28.7	52.7	41.4

*Date of Maximum Deposits. †Except First National and U. S. Trust; heavily capitalized and not typical.

It will be observed that in 1936 the average ratio of capital funds to deposit liabilities was 13.9%, considerably better than the orthodox limit of 10%; excluding First National and U. S. Trust, with their heavy capitalization, the average of the 13 other banks was 11.3%. On Dec. 31, 1945, which marked the peak of their deposits, the average capital ratio had dropped to 8.0% for the 15 banks and 6.3% for the 13. Since then, deposits have declined, capital funds have modestly expanded through the plough-back of undistributed earnings, and the average capital to deposit ratio has increased to 11.1% for the 15 banks, and 8.8% for the 13 banks. The following six banks now have ratios in excess of 10%: Bankers Trust, First National, Guaranty Trust, Irving Trust, New York Trust and U. S. Trust.

In 1936 loans averaged 27.6% of total assets and Government securities closely the same. Today, however, loans constitute 27.0% and Governments 41.4% of total assets. In other words, today a far greater proportion of the assets balancing the deposit liabilities can be considered as relatively "riskless," than was the case in 1936.

In this connection, it is of interest to compare for the two dates the ratio of capital funds to "risk assets," i.e., total assets less cash and Governments. These figures are shown in Table II; also the amount of capital funds (capital, surplus and undivided profits) for each of the 15 banks.

TABLE II

	Dec. 31, '36 Cap. Funds ($000)	Ratio to "Risk Assets" %	Mar. 31, '48 Cap. Funds ($000)	Ratio to "Risk Assets" %
Bank of Manhattan	45,432	15.1	54,937	12.9
Bank of New York	18,993	21.9	27,475	23.9
Bankers Trust	98,938	28.7	142,015	21.7
Central Hanover	87,798	26.6	128,053	25.5
Chase National	227,004	20.4	322,399	19.2
Chemical Bank & Trust	73,383	21.8	108,856	19.0
Corn Exchange	32,438	35.3	43,975	43.8
First National	116,931	57.5	136,797	72.9
Guaranty Trust	269,357	32.7	362,552	38.5
Irving Trust	110,652	42.6	114,986	26.2
Manufacturers Trust	84,714	24.7	125,255	21.1
National City	156,898	16.2	300,867	17.8
New York Trust	40,272	23.6	64,731	24.8
Public National	14,783	14.8	30,188	18.5
U. S. Trust	30,511	55.5	29,281	65.3
TOTAL	1,408,134		2,002,367	
AVERAGE		29.2		30.1

In relation to "risk assets," the 15 banks today have a stronger capital ratio than they did in 1936, with an average of 30.1% compared with 29.2%. Contributing to this has been the conservative dividend policy of the banks, whereby a relatively large proportion of earnings have been ploughed back into capital. It will be observed that total capital funds have expanded from $1,408,134,000 to $2,002,367,000, an increase of 42.2%. Very little of this has been "new money"—some in the case of Manufacturers Trust and of New York Trust. The bulk of it has come from earnings, recoveries and transfers from reserves.

The lowest ratio in 1936 is the 14.8% of Public, followed by the 15.1% of Bank of Manhattan and the 16.2% of National City. Bank of Manhattan's ratio has declined to 12.9% and is now the lowest in the group. Public's ratio has increased to 18.5% and National City's to 17.8%.

First National's capital funds are 72.9% of "risk assets" and U. S. Trust's, 65.3%. These are exceptionally high and denote the strength and conservatism of these two institutions. The other 13 institutions have from moderately to substantially lower ratios, but none seems low enough to cause concern.

NSTA Notes

NATIONAL SECURITY TRADERS ASSOCIATION-SEC DINNER

The National Security Traders Association for the second time entertained members of the Securities and Exchange Commission and staff at a dinner held April 21 at the Hotel Statler in Washington, D. C. The dinner, which was of an informal type, will become an annual affair.

Attending the gathering were R. Victor Mosley, Stroud & Co., Inc.; Paul Yarrow, Clement, Curtis & Co., Chicago; Michael J. Heaney, Jos. McManus & Co., New York; Edward H. Welch, Sincere & Co., Chicago; H. Frank Burkholder, Equitable Securities Corporation, Nashville; Edward E. Parsons, Wm. J. Mericka & Co., Cleveland; Paul I. Moreland, Moreland & Co., Detroit, Mich.; John L. Canavan, Rauscher, Pierce & Co., Dallas, Texas; Clair S. Hall, Jr., Clair S. Hall & Co., Cincinnati; Henry J. Arnold, Clair S. Hall & Co., Cincinnati; Willis M. Summers, Troster, Currie & Summers, New York City; Joseph W. Sener, Mackubin, Legg & Co., Baltimore; Wm. Perry Brown, Newman, Brown & Co., New Orleans; Herbert H. Blizzard, Herbert H. Blizzard & Co., Philadelphia; Morton A. Cayne, Cunningham & Co., Cleveland; Stanley Roggenburg, Roggenburg & Co., N. Y.; Harold B. Smith, Collin, Norton & Co., N. Y.; Arthur E. Engdahl, Goldman, Sachs & Co., Boston; Star C. Koerner, Mitchell, Hutchins & Co., Chicago; John E. Graham, Brainard-Judd & Co., Hartford, Conn.; John J. O'Kane, Jr., John J. O'Kane, Jr. & Co., New York City; John M. Hudson, Thayer, Baker & Co., Philadelphia; Charles W. Hahn, Scherck, Richter Co., St. Louis; Hon. Fred E. Busbey, Washington; Russell M. Ergood, Jr., Stroud & Co., Philadelphia; Lester T. Doyle, Hardy & Co., New York; T. Geoffrey Horsfield, Wm. J. Mericka & Co., New York; L. E. Walker, National Quotation Bureau, New York; and Chester E. de Willers, C. E. de Willers & Co., New York.

Members of the SEC and their staff attending were: Robert K. McConnaughey, Richard B. McEntire, Edmond M. Hanrahan, Harry A. McDonald, Edward Cashion, Charles Cole, Frank Gibbons, Joseph Keenan, Nathan D. Lobell, Louis Loss, Anthon Lund, Sherry McAdam, Michael Mooney, and Sidney Wilner. Paul Rowen, Regional Administrator for Boston, was also present.

King With Cohu & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Rupert C. King has become affiliated with Cohu & Co., 634 South Spring Street. He was previously with Merrill Lynch, Pierce, Fenner & Beane.

Floyd A. Allen Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Allen L. Walker has been added to the staff of Floyd A. Allen & Co., Inc., 650 South Grand Avenue.

Joins Flynn & Levitt

LOS ANGELES, CALIF. — Waldo E. Finnoff, Jr., formerly with G. Brashears & Co., is now connected with Flynn & Levitt, 411 West Seventh Street.

H. L. Rodger Co. Admits

(Special to THE FINANCIAL CHRONICLE)

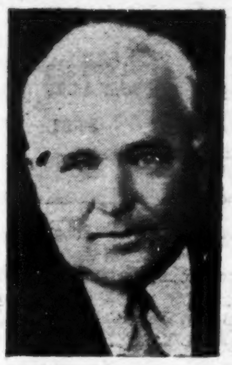
JOLIET, ILL.—Harry J. Rodger has admitted L. R. Williams to limited partnership in H. L. Rodger & Bro., 4 East Clinton Street. Mr. Williams has been with the firm for some time.

Why Support Gov't Bonds?

By THOMAS I. PARKINSON*
President, The Equitable Life Assurance Society of the U. S.

Mr. Parkinson claims Treasury and Federal Reserve support of government bonds is chief source of our constantly increasing money supply, which, in turn, is cause of declining value of dollar. Concludes price support is more in interest of Treasury than of bondholders.

Immediately following Pearl Harbor the Federal Reserve Board declared its purpose to see that funds were available to finance the government's war needs and required the Federal Reserve Banks "to advance funds on U. S. securities at par to all banks." This meant that any bank could turn its government bonds into the Federal Reserve at least at par.



T. I. Parkinson

Later on the banks and others bid up governments to a premium above par, and the Federal Reserve advanced the price at which it took those governments offered to it in accordance with an "interest pattern" running through the whole list of governments from 90-day bills to 30-year bonds. Whatever this "interest pattern" was, in practice the banks which paid a premium for bonds bought on the market could be sure of getting the equivalent from the Federal Reserve if and when they wanted to sell. This "support" of government bonds is still in effect though at reduced prices fixed by the Reserve System in the Board's announcement in December of 1947.

This means that the commercial banks may if they choose turn their present holdings of any government security into the Federal Reserve Banks and receive the prices now maintained by order of the Federal Reserve Board. There is no condition imposed on the selling bank even with respect to the use to be made of the proceeds of the sale. The selling bank may, and usually does, use these new funds obtained from the Federal Reserve to make loans or to buy income producing assets for investment. These loans or purchases add to bank deposits and therefore to our money supply to the full amount loaned or paid.

This is our present "support" of government securities by the government's own agencies, and it is the chief source of our constantly increasing supply of money, which is the chief source of the declining purchasing value of the dollar and the consequent increase in prices and the cost of living.

Analysis of Effects of Support

An analysis of the outstanding government debt and its holders may indicate for whom and how the "support" program works and whether its stabilizing benefits are worth the detriments involved.

The total government debt is $250 billion, made up of different types of securities held by different types of individuals or institutions. Here are the approximate amounts of governments held by various types of holders:

(1) Savings bonds (E, F, and G, etc.)—$60 billion.

These are not "supported" by the Federal Reserve. They are redeemed by the Treasury at varying amounts of loss of either principal or interest to the holder who redeems in the early years.

(2) Holdings of government trust funds (Social Security Retirement, etc.)—$35 billion.

These are not supported and obviously do not need support. Indeed it was originally intended that these funds would support the publically held debt by investing their annual income in purchases on the market. Instead their income goes annually into the general fund for current expenditures, and government IOU's go into these trust funds.

(3) Holdings of the Federal Reserve Banks—$20 billion.

These result from previous support purchases made from banks. They have had their support and obviously need no more.

The three classes described above as not having or not needing support total $115 billion out of the total outstanding of $250 billion. The remaining $135 billion may be classified as follows:

(4) Short-term governments, maturing within five years (less the $20 billion held by the Federal Reserve Banks)—$45 billion.

These shorts are usually considered as "money bonds" and

(Continued on page 48)

*A release by Mr. Parkinson made through the Continental Press Syndicate, Brightwaters, N. Y.

UNION PACIFIC RAILROAD COMPANY

FIFTY-FIRST ANNUAL REPORT — YEAR ENDED DECEMBER 31, 1947

To the Stockholders of Union Pacific Railroad Company:

The Board of Directors submits the following report for the year ended December 31, 1947, for Union Pacific Railroad Company, including Oregon Short Line Railroad Company, Oregon-Washington Railroad & Navigation Company, Los Angeles & Salt Lake Railroad Company and The St. Joseph and Grand Island Railway Company, whose properties are leased to Union Pacific Railroad Company. The lessor companies have certain income and charges, and the figures in the Income Account, other than those relating to transportation operations, and in the Surplus Account and General Balance Sheet and tabulations and tables relating thereto are stated on a consolidated basis, *excluding offsetting accounts between companies.*

INCOME

The operated mileage at close of year and income for the year 1947, compared with 1946, were as follows:

Operated Mileage at Close of Year	1947	1946	Increase	Decrease
Miles of road	9,755.64	9,774.91	--------	19.27
Miles of additional main track	1,530.41	1,531.45	--------	1.04
Miles of yard tracks and sidings	4,523.81	4.490.59	33.22	
Total Mileage Operated	15,809.86	15,796.95	12.91	
Transportation Operations				
Operating revenues	$410,053,704.83	$361,395,534.29	$48,658,170.54	
Operating expenses	300,454,623.61	286,809,739.61	13,644,884.00	
Revenues over expenses	$109,599,081.22	$74,585,794.68	$35,013,286.54	
Taxes	58,431,619.97	35,403,648.23	23,027,971.74	
Railway Operating Income	$51,167,461.25	$39,182,146.45	$11,985,314.80	
Rents from use of joint tracks, yards and terminal facilities	1,845,195.27	1,816,712.47	28,482.80	
	$53,012,656.52	$40,998,858.92	$12,013,797.60	
Hire of equipment—debit balance	$12,920,785.80	$10,999,214.01	$1,921,571.79	
Rents for use of joint tracks, yards, and terminal facilities	3,334,639.51	3,046.293.10	288,346.41	
	$16,255,425.31	$14.045,507.11	$2,209,918.20	
Net Income from Transportation Operations	$36,757,231.21	$26,953,351.81	$9,803,879.40	
Income from Investments and Sources other than Transportation Operations				
Income from oil and gas operations—net	$16,957,217.95	$6,621,631.34	$10,335,586.61	
Dividends on stocks owned	2,343,818.00	2,913,483.50	--------	$569,665.50
Interest on bonds and notes owned	2,273,337.40	*2,717,036.05	--------	443,698.65
Other interest income	140,205.89	*814,508.64	--------	674,302.75
Rents from lease of road and equipment	279,527.54	315,029.74	--------	35,502.20
Miscellaneous rents	512,984.35	510.356.02	2.628.33	
Miscellaneous income	3,528,178.27	1,906,345.09	1,621,833.18	
Total	$26.035,269.40	$15,798.390.38	$10,236,879.02	
Total Income	$62,792.500.61	$42,751,742.19	$20.040.758.42	
Fixed and Other Charges				
Interest on funded debt	$7,487,770.82	$11,384,595.08	--------	$3,896,824.26
Interest on unfunded debt	368,404.78	365,187.93	$3.216.85	
Miscellaneous rents	28,928.43	32,053.33	--------	3,124.90
Miscellaneous charges	459,901.03	538,302.57	--------	78,401.54
Total	$8,345,005.06	$12,320.138.91	--------	$3.975,133.85
Net Income from All Sources	$51,447,495.55	$30,431,603.28	$21,015,892.27	
Released from "Reserve against possible refunds on U. S. Government shipments"	1,547,973.23	3,780,134.95	--------	$2,232,161.72
Total for Disposition	$55,995,468.78	$34,211,738.23	$21,783,730.55	

DISPOSITION

Dividends on Stock of Union Pacific Railroad Co.:		1947	1946	Increase	Decrease
Preferred stock:					
2 per cent paid April 1, 1947	$1,990,862.00				
2 per cent paid October 1, 1947	1,990,862.00	$3,981,724.00	$3,981,724.00		
Common stock:					
1½ per cent paid April 1, 1947	$3,334,365.00				
1½ per cent paid July 1, 1947	3,334,365.00				
1½ per cent paid October 1, 1947	3,334,365.00				
5½ per cent payable January 2, 1948	12,226,005.00	22,229,100.00	13,337,460.00	$8,891,640.00	
Total Dividends		$26,210,824.00	$17,319,184.00	$8,891,640.00	
Transferred to Earned Surplus — Unappropriated		$29,784,644.78	$16,892,554.23	$12,892,090.55	

*Restated.

Operating results for year 1947 compared with year 1946:

	1947	1946	Increase	Decrease	Per Cent
Average miles of road operated	9.772.88	9,775.33	--------	2.45	—
OPERATING REVENUES					
Freight	$330,468,521.09	$263.825,662.84	$66,642,858.25	--------	25.3
Passenger	46,412,313.47	64,767,862.71	--------	$18,355,549.24	28.3
Mail	10,261,533.72	7,928,255.67	2,333,278.05	--------	29.4
Express	5,635,676.10	6,420,630.93	--------	784.954.83	12.2
Other passenger-train	7,121,572.81	8,321,134.77	--------	1,199,561.96	14.4
Switching	3,303,997.27	2,732,891.12	571,106.15	--------	20.9
Other	6,850,090.37	7,399,096.25	--------	549,005.88	7.4
Total operating revenues	$410.053.704.83	$361,395.534.29	$48.658.170.54	--------	13.5
OPERATING EXPENSES					
*Maintenance of way and structures	$53,128,675.48	$46.576,730.42	$6,551,945.06	--------	14.1
*Maintenance of equipment	69,131,744.75	69,235,048.90	--------	$53.304.15	.1
Total maintenance	$122,310,420.23	$115,811,779.32	$6,498,640.91	--------	5.6
Traffic	8,486,055.96	7,880,227.66	605,828.30	--------	7.7
Transportation	146,741,603.94	140.262.539.14	6,479,064.80	--------	4.6
Miscellaneous operations	13,130,293.97	13,633,024.46	--------	$502,730.49	3.7
General	9,786,249.51	9,222,169.03	564,080.48	--------	6.1
Total operating expenses	$300.454.623.61	$286,809.739.61	$13,644.884.00	--------	4.8
Revenues over expenses	$109,599.081.22	$74,585,794.68	$35,013,286.54	--------	46.9

TAXES	1947	1946	Increase	Decrease	Per Cent
State and county	$13,885,835.00	$12,480,000.00	$1,405,835.00	--------	11.3
Federal income	$30.449,589.61	$12,269,366.11	$18,180,223.50	--------	148.2
Federal unemployment insurance	4,802,208.64	4,791,085.07	11,123.57	--------	.2
Federal retirement	9,169,136.76	5,573,650.58	3,595,486.18	--------	64.5
Other Federal	124,849.96	289,546.47	--------	$164,696.51	56.9
Total Federal	$44,545,784.97	$22,923,648.23	$21,622,136.74	--------	94.3
Total taxes	$58,431,619.97	$35,403,648.23	$23,027,971.74	--------	65.0
Railway operating income	$51,167,461.25	$39,182,146.45	$11,985,314.80	--------	30.6
Equipment rents (debit)	12,920,785.80	10,999,214.01	1,921,571.79	--------	17.5
Joint facility rents (debit)	1,489,444.24	1,229,580.63	259,863.61	--------	21.1
Net railway operating income	$36,757,231.21	$26,953,351.81	$9,803,879.40	--------	36.4
Per cent—Operating expenses of operating revenues	73.27	79.36	--------	6.09	7.7
FREIGHT TRAFFIC *(Commercial Freight only)*					
Tons of revenue freight carried	56.420.476	43.002,636	8.417,840	--------	17.5
Ton-miles, revenue freight	31,738,920,871	27,474,365,447	4,264.555,424	--------	15.5
Average distance hauled per ton *(miles)*	562.54	572.35	--------	9.81	1.7
Average revenue per ton-mile *(cents)*	1.041	.960	.081	--------	8.4
Average revenue per freight-train mile	$10.34	$8.66	$1,68	--------	19.4
PASSENGER TRAFFIC *(Excludes Motor-Car Trains)*					
Revenue passengers carried	2,875,329	4.730,542	--------	1,855.213	39.2
Revenue passengers carried one mile	2,109,816.057	3,645,281,435	--------	1,535,465,378	42.1
Average distance hauled per passenger *(miles)*	733.77	770.58	--------	36.81	4.8
Average passengers per passenger-train mile	135.79	191.84	--------	56.05	29.2
Average revenue per passenger-mile *(cents)*	2.193	1.772	.421	--------	23.8
Average revenue per passenger-train mile, passengers only	$2.98	$3.40	--------	$.42	12.4
Average total revenue per passenger-train mile	$3.98	$4.30	--------	$.32	7.4

*Includes depreciation, amortization and retirement charges:

	1947	1946	Increase
Maintenance of way and structures	$5,930,611.85	$4,795.776.02	$1,134,835.83
Maintenance of equipment	10,253.350.73	9,431,380.55	821,970.18

GENERAL BALANCE SHEET—ASSETS

	December 31, 1947	December 31, 1946	Increase	Decrease
Investments:				
Road and Equipment	$1,110,377,934.30	$1,080,102,580.09	$30,275,354.21	
Less:				
Receipts from improvement and equipment fund	$23,823,091.13	$23,823,091.13		
Appropriations from income and surplus prior to July 1, 1907, credited to this account	13,310,236.52	13,310,236.52		
Total	$37,133,327.65	$37,133,327.65		
Road and equipment property	$1,073,244,606.65	$1,042,969,252.44	$30,275,354.21	
Donations and grants (Credit)	*$11,998,756.59*	*$11,795,049.39*	*$203,707.20*	
Reserve for depreciation—road and equipment (Credit)	*$173,878,433.87*	*$173,435,083.69*	*$443,350.18*	
Reserve for amortization of national defense projects (Credit)	*$57,803,237.17*	*$59,437,104.76*	--------	*$1,633,867.59*
Sinking funds	$222.50	$2,507.50	--------	$2,285.00
Capital and other reserve funds	$143,773.28	$539,935.64	--------	$396,162.36
Miscellaneous physical property	$28,427,836.23	$26,192,714.72	$2,235,121.51	
Reserve for depreciation—miscellaneous physical property (Credit)	*$14,172,864.54*	*$12,922,357.52*	*$1,250,507.02*	
Investments in affiliated companies:				
Stocks	$20,304,013.24	$18,679,195.24	$1,624,818.00	
Notes	329,594.24	348,344.43	--------	$18,750.00
Advances	8,491,049.55	8,771,547.76	--------	280,498.21
Total	$29,124,657.22	$27,799,087.43	$1,325,569.79	
Investments in other companies:				
Stocks	$64,048,872.42	$64,052,376.08	--------	$3,503.66
Bonds and notes	22,797,809.23	22,725,409.57	$72,399.66	
Total	$86,846,681.65	$86.777,785.65	$68,896.00	
Reserve for adjustment of investments in securities (Credit)	*$33,842,953.87*	*$33,845,942.13*	--------	(a)*$2,988.26*
Total Investments	$926,091,531.49	$892,845,745.89	$33,245,785.60	
Current Assets:				
Cash	$43,312,877.48	$43,001,365.39	$311,512.09	
Temporary cash investments (U. S. Government securities)	96,302,249.82	*163,551,106.09	--------	$67,248,856.27
Special deposits	605,496.84	1,772,703.93	--------	(b) 1,167,207.09
Loans and bills receivable	789,140.00	28,940.00	760,200.00	
Traffic and car-service balances—net	11,272,427.22	9.017,861.12	2,254,566.10	
Net balance receivable from agents and conductors	4,343,868.03	4.167,836.28	176.031.75	
Miscellaneous accounts receivable	16,791,552.92	12,216,168.34	4,575.384.58	
Material and supplies	35.940.295.93	34,845,661.75	1,094,634.18	
Interest and dividends receivable	1,030,301.84	*1,248.908.74	--------	218,606.90
Accrued accounts receivable	12,529,733.69	9,071,675.75	3,458,057.94	
Other current assets:				
Baltimore and Ohio Railroad Co. capital stock applicable to payment of extra dividend of 1914	106.897.30	110.133.30	--------	3,236.00
Miscellaneous items	1,023,344.83	189.843.90	833,500.93	
Total Current Assets	$224,048,185.90	$279,222,204.59	--------	$55,174,018.69
Deferred Assets:				
Working fund advances	$108,634.79	$107,753.46	$881.33	
Other deferred assets	3,499,086.48	33,020,922.56	--------	(c) $29,521,836.08
Total Deferred Assets	$3.607,721.27	$33,128,676.02	--------	$29,520,954.75
Unadjusted Debits:				
Prepayments	$2.622.00	$3,807.81	--------	$1,185.81
Other unadjusted debits	1,490,011.17	1,482,300.03	$7,711.14	
Total Unadjusted Debits	$1,492,633.17	$1,486,107.84	$6,525.33	
Grand Total	$1,155,240,071.83	$1,206,682,734.34	--------	$51,442,662.51

(a) Principally loss from sale of Baltimore & Ohio R.R. Co. common stock, charged to this account.

(b) Due chiefly to payments by Bond Trustees, from funds deposited with them by Company in prior years, of principal of and premiums on called bonds and of interest to dates on which such bonds were called.

*Restated.

GENERAL BALANCE SHEET—LIABILITIES

	December 31, 1947	December 31, 1946	Increase	Decrease
Capital Stock:				
Common stock	$222,302,500.00	$222,302,500.00		
Preferred stock	99,591,580.79	99,591,580.79		
Total Capital Stock	$321,894,080.79	$321,894,080.79		
Funded Debt	240,710,232.09	319,891,869.58	--------	$79,181,637.49
Total Capital Stock and Funded Debt	$562,604,312.88	$641,785,950.37	--------	$79,181,637.49
Due to Affiliated Companies	$11,180,098.87	$9,470,009.92	$1,710,088.95	
Current Liabilities:				
Audited accounts and wages payable	$24,826,364.65	$23,814,245.01	$1,012,119.64	
Miscellaneous accounts payable	4,931,811.00	3,684,945.13	1,246,865.87	
Interest matured unpaid:				
Coupons matured, but not presented	492,197.20	1,931,289.84	--------	$1,439,092.64
Coupons and interest on registered bonds, due first proximo	104,277.50	2,191,285.00	--------	2,087,007.50
Dividends matured unpaid:				
Dividends due but uncalled for	293,038.31	336,697.25	--------	43,658.94
Extra dividend on common stock declared Jan. 8, 1914, payable to stockholders of record March 2, 1914, unpaid	115,338.34	118,876.61	--------	3,538.27
Dividend on common stock payable second proximo	12,226,005.00	3,334,365.00	8,891,640.00	
Unmatured interest accrued	1,671,471.96	1,692,014.03	--------	20,542.07
Accrued accounts payable	7,590,046.69	7,289,449.10	300,597.59	
Taxes accrued	50,075,242.78	32,170,473.67	17,904,769.11	
Other current liabilities	4,696,491.98	3,356,353.57	1,340,138.41	
Total Current Liabilities	$107,022,285.41	$79,919,994.21	$27,102,291.20	
Deferred Liabilities	$8,041,593.42	$7,676,282.09	$365,311.33	
Unadjusted Credits:				
Premium on funded debt	$4,923,914.91	$5,250,429.32	--------	$326,514.41
Reserve for fire insurance	15,838,605.05	14,964,846.60	$873,758.45	
Reserve for depreciation—leased property	5,050.57	5,236.42	--------	185.85
Other unadjusted credits:	3,828,051.39	33,793,316.66	--------	(c)29,965,265.27
Total Unadjusted Credits	$24,595,621.92	$54,013,829.00	--------	$29,418,207.08
Total Liabilities	$713,443,912.50	$792,866,065.59	--------	$79,422,153.09

	December 31, 1947	December 31, 1946	Increase	Decrease
Surplus:				
Paid-in surplus	$860.00	$860.00		
Earned surplus—appropriated:				
Additions and betterments	$28,522,352.23	$28,522,352.23		
Funded debt retired through income and surplus	4,323,822.41	3,118,978.66	$1,204,843.75	
Sinking fund reserves	222.50	2,507.50	--------	$2,285.00
Reserve against possible refunds on U. S. Government shipments	2,194,172.98	3,742,146.21	--------	1,547,973.23
Total Earned Surplus—Appropriated	$35,040,570.12	$35,385,984.60	--------	$345,414.48
Earned Surplus—Unappropriated	$367,170,181.97	$338,845,276.91	$28,324,905.06	
Total Earned Surplus	$402,210,752.09	$374,231,261.51	$27,979,490.58	
Total Surplus	$402,211,612.09	$374,232,121.51	$27,979,490.58	
As this consolidated balance sheet excludes all intercompany items, securities of the Los Angeles & Salt Lake Railroad Company and The St. Joseph and Grand Island Railway Company owned by other System companies are not included. The difference between the par and face value of such securities as carried on the books of the issuing companies (less unextinguished discount on the bonds and discount charged to Earned Surplus—Unappropriated but added back in consolidating the accounts) and the amounts at which the securities are carried on the books of the owning companies is set up here to balance	$39,584,547.24	$39,584,547.24		
Grand Total	$1,155,240,071.83	$1,206,682,734.34	--------	$51,442,662.51

(c) Due principally to writing out of these accounts, amounts billed against U. S. Government (not included in Company's income), representing differences between commercial rates and land grant rates on certain freight shipments transported in prior years, because of decisions by U. S. Supreme Court sustaining Government's contention that such shipments were "military or naval property of the United States moving for military or naval and not for civil use," to which land grant rates were applicable under Transportation Act of 1940.

EXPENDITURES CHARGEABLE TO INVESTMENT IN ROAD AND EQUIPMENT PROPERTY

Additions and Betterments (excluding equipment)	$9,198,025.84
Equipment	37,481,854.65
Total Expenditures	$46,677,880.49
Credits to investment in Road and Equipment Property:	
Cost of fixed property retired and not replaced	$1,623,901.37
Cost of equipment retired	14,778,624.91
Total Credits	$16,402,526.28
Net increase in investment in "Road and Equipment Property"	$30,275,354.21

The Current Money Market

By DONALD S. THOMPSON*

Vice-President, Federal Reserve Bank of Cleveland

Mr. Thompson traces effects of war financing on money and banking developments, and points out since war's end individual spending has increased more rapidly than aggregate individual savings. Sees continued heavy demand for capital and credit, and more serious inflation should sustained capital and rearmament expenditures exceed physical output of goods and services. Says credit tightening by Federal Reserve has been partly offset by gold imports and rediscount rate is inoperative as credit expansion check. Analyzes proposed measures for checking inflation.

Our financial problems of today are primarily an inheritance of the costliest war in history and of the policies followed in financing that war. Therefore, in order to discuss the money market and to outline the situation as I see it, particularly with reference to its banking implications, I propose first to review some pertinent aspects of war finance with which most of you are no doubt familiar and which have played a major role in shaping our recent financial history; second, to review postwar financial developments and the course of money rates; and, third, to discuss the financial outlook, the problems which I see ahead and their implications to banking.

Donald S. Thompson

For our present purpose, I would like to start the story with the year 1940. Perhaps you can recall the feeling of bewilderment and dismay that engulfed us when Germany swept into the lowlands, overran France and launched its air attack on England. That feeling of dismay gave way to one of determination and a willingness to sacrifice for the safety and preservation of our country. One of the amazing manifestations of that spirit was public sentiment in favor of heavier taxes. 1940 was an election year, however, and the Administration and the Congress enacted only very moderate increases in taxes. People relaxed and thought that after all may be we could have our guns and our butter too without serious sacrifice. The consequences of the fiscal and financial policies that followed from this general philosophy are with us today. In my opinion, taxes never were heavy enough, people did not save enough, they spent too much, too much of the war was financed by bank credit, purchasing power expanded beyond the ability of our economic system to increase the supply of goods and services and inflation became and is now rampant. I do not believe that we could have financed the war without some inflation, but I do think that it need not have been so bad as it has been. I emphasize this point now because the world outlook today indicates that we may have some difficult and fateful decisions to make in the near future and I would hate to see us make the same financial mistakes all over again. The record of the present year to date does not give me much hope that we will have the vision, the wisdom, the self-restraint, the statesmanship and the courage to avoid repeating our past mistakes. I also emphasize our past history because if bankers do not insist on sound fiscal and financial practices, when the going gets tough who is there to do it?

*An address by Mr. Thompson before the 13th Eastern Regional Convention of the National Association of Bank Auditors and Comptrollers, Pittsburgh, Pa., April 24, 1948.

War Financing and Its Effect

During the four years ending June 30, 1945—the four years of rearmament and active participation in World War II—the Federal Government spent $310 billion. It collected in revenue a net total of $126 billion, leaving a deficit of $184 billion. Because of the large volume of payments being made, the Treasury had to increase its working balances substantially so that total borrowing (i.e., increase in the public debt) amounted to more than $200 billion. Of this amount, $16 billion, or 8%, was borrowed from Federal agencies and trust funds, $100 billion, or 50%, was borrowed from the public other than from banks, and $84 billion, or 42%, was borrowed from the banks—$20 billion from the Federal Reserve banks, and $64 billion from the commercial banks.

Financing of this magnitude would inevitably be the dominant factor in the money market. In this instance the borrower, the Treasury, under wartime conditions, was also able, in the name of patriotism, to dictate all terms and silence all dissent. Therefore, what the Treasury decided became policy during this period and the financial community fulfilled the role of financing the war in such a way that no military decision needed to be made for financial reasons. As was true with other Governments, it was the deliberate policy of our Government to finance the war at low rates of interest. The Treasury established low rates of interest on its securities and insisted on a "pattern" of rates with which you are all no doubt familiar. The pattern of rates and policies followed in issuing securities made it profitable for subscribers to take a "free ride" or to "ride the curve"—that is, to buy securities at the issue price and then sell them later to financial institutions, chiefly the banks, at above the issue price. This gave original subscribers a return higher than that nominally set by the Treasury, assuring substantial oversubscription for each Treasury drive.

The commercial banks were supplied by the Federal Reserve banks with reserves sufficient to make it possible for the banks to buy enough securities to maintain the pattern of rates. In order to accomplish this objective and to meet the demands for currency the Federal Reserve System bought $20 billion of securities; the commercial banks bought $64 billion and between them the banking system as a whole financed 42% of the Federal deficit. Commercial bank holdings of U. S. Government securities increased from $20 billion in mid-1941 to about $85 billion at the close of the war while the public's holdings of currency and of deposits in commercial banks rose by $60 billion or from $61 billion to $121 billion. The public's holdings of currency and deposits increased by $60 billion while their holdings of Governments increased by $100 billion.

Price Developments

The total value of all goods and services produced in this country rose substantially during the war, reflecting increased purchases by government, chiefly for war purposes, and an expansion in consumer purchases. The annual rate of government purchases rose by $85 billion and of consumer purchases by $50-$60 billion. Industrial production during the war was more than double prewar output. The increase was entirely in war goods, manufacturing output of civilian goods declining by about 20-25%. Supply of foods available to civilians which ordinarily absorbs about one-third of civilian expenditures, increased by 10-15% so that total civilian supplies were somewhat below prewar levels. During this period, personal incomes were rising sharply due primarily to high salaries and wages. Farm income and business profits also increased substantially.

Taxes were not raised sufficiently to absorb increased income. Direct borrowings by the Treasury and other forms of savings, although greater than ever before in our history, also failed to absorb the increased incomes. Individuals were left with more money to spend. They sought to spend their incomes on the available supplies of goods and services, and prices rose. The growth of incomes at a time when the total supply of goods available to civilians was reduced and when a number of commodities were being rationed and prices controlled, left people with large amounts of savings. The rate of saving during the war rose to a peak of nearly one-quarter of personal income in 1942, the highest figure ever recorded.

A substantial portion of these savings and of the retained profits and unused depreciation allowances of business were, for the most part, invested or held in liquid assets—currency, deposits, and government securities. As a

(Continued on page 44)

Railroad Securities

The railroad stocks continue among the best acting on the New York Stock Exchange, and it is the opinion of most analysts and economists that there is every reason why they should continue as the leaders. The Interstate Commerce Commission has again indicated its awareness that it has a mandate from Congress to establish rates that will allow at least reasonable profits and assure the maintenance of an efficient and adequate transportation system. Also, the Commission has finally recognized in its most recent rate decision that the rate needs of the individual railroad vary as between the different sections of the country.

With an adequate rate structure (and this appears to have been achieved) there is no doubt but that at the present level of traffic a vast majority of the country's railroads can make good money. Recent developments have tended to give assurance that the high level of traffic will be with us for some time. One factor has been passage of the European Recovery Act with its implications of a sustained high volume of export freight movement. Another factor has been the growing belief that we will engage in a substantial rearmament program. Not only will this in itself bring with it a high level of industrial activity and, therefore, railroad freight volume. Also, it will presumably mean a slowing down of the rate at which the backed up demand for civilian goods was being satisfied. This in turn should give support to our industrial economy when the armament program slows down.

While all sections of the rail list have participated in the changed investor and speculator psychology, the response has not by any means been uniform. One of the better quality stocks that has continued relatively laggard has been Southern Railway common. It has naturally staged some recovery from the year's low. Nevertheless it is still selling out of line with other rail stocks of similar investment stature in relation to long-term traffic prospects, current earnings and the well secured dividend of $3 per share per annum. In particular, many analysts are hard pressed to understand why the spread between this stock and Southern Pacific has widened so during the past twelve months.

Southern Railway was one of the first of the major Class I carriers to recognize the advisability of reducing its debt and charges after the depression years. In the past two years it has been handicapped by the relatively high prices at which its bonds have been selling and the fact that none of its debt is callable. Nevertheless, since the beginning of 1941 it has reduced its direct non-equipment debt by close to $62 million and leased line debt has been cut by more than $9 million. Fixed charges have been reduced by roundly $4,200,000 in the past ten years to the current indicated level of $12,600,000. This saving is alone equivalent to more than $2 a share of common, allowing for Federal income taxes.

Another favorable aspect of the Southern Railway picture is the traffic status. The road literally covers the south. Therefore, it has participated fully in the benefits from the long term trend toward industrialization of the area. Also, there has been a healthy greater diversification of cash crops in the southeast, which has strengthened the entire economy of large parts of the territory served. As a result of these developments Southern has enjoyed a revenue trend superior to that of the industry or the roads of the Southern Region as a group. The industrial expansion has not even yet run its full course which augurs well for a continuation of the better than average traffic and revenue performances.

Over the past ten years earnings on Southern common have averaged $9.19 a share without any allowance for the interim reduction in fixed charges. In the difficult first post-war year, and without the benefits of tax credits which supported so many roads, the company earned $4.82 and last year this increased to $6.85. The road is one of those that reported year-to-year gains in net in the opening 1948 months despite adverse weather conditions. With this background results for the full year should reach $10 a share, or more than three times the current dividend.

Hubert R. O'Neil, Jr. With Morgan & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Hubert R. O'Neil, Jr. has become associated with Morgan & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange. Mr. O'Neil was formerly with Bourbeau & Douglass and Buckley Brothers. Prior thereto he was with Butler-Huff & Co. and Hill Richards & Co.

Hubert R. O'Neil, Jr.

T. H. Jones & Co. Is Formed in Cleveland

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO.—T. H. Jones & Company has been formed with offices in the Union Commerce Building to engage in the securities business. Officers are Thomas Hoyt Jones, Jr., President; David G. Skall and Lester I. Miller, Vice-Presidents; Herman B. Joseph, Treasurer and Secretary, and Irma H. Bender, Assistant Treasurer and Secretary. Mr. Jones was formerly a partner in Prescott & Co. Other officers were all of Skall, Joseph, Miller & Co. which is being dissolved.

Mercer Hicks New Location

Mercer Hicks & Co. announces the removal of their offices to larger quarters at 72 Wall Street, New York City.

Outlook for Aircraft Manufacturing

By GLENN L. MARTIN*

President, Glenn L. Martin Company

Leading airplane manufacturer, asserting air plane industry is well past pilot-plant stage, outlines steps to place production on a firm basis. Cites losses of aviation companies as hindering replacement of improved equipment and reveals new developments in passenger and freight aircraft. Says U. S. is first in airplane improvement and production, and greatest problem facing manufacturers is to win sufficient confidence of public that will supply required capital. Points to increased military aircraft needs.

I am pleased to appear before the Association of Customers' Brokers because you are the artisans that sensitize countless arteries of the economic structure of the country and I hope that I can give you a quick skeleton-picture on the outlook for the aircraft manufacturing industry and the prospects for commercial and national defense aircraft orders.

Glenn L. Martin

It is now a proven fact that there can be no advance in civilization except as there is improvement in communication and transportation. There can be no denying that aircraft is now an important part of the transportation systems of the world and is making tributary to important centers in outlying areas of the world that never before have been considered tributary.

A study of the commercial side of the aircraft industry since the first established scheduled air mail route between Washington and New York shows that there has been a growth rate in the use of commercial aircraft for mail, passengers and cargo that by comparison in the chart rooms of all forms of transportation indicates almost boom proportions and in the tragic years in the early thirties, when all industry and business was paralyzed, the growth curve for aircraft continued upward at a healthy rate.

The industry is well past the pilot-plant stage, with sufficient experienced years to warrant a serious analysis on a business basis, which will, in my opinion, indicate the need for immediate steps to be taken in rapid succession to relieve the commercial airlines of the difficulties that they have been experiencing since the end of World War II.

New Steps to Be Taken

First—The first vital decision by the stockholders of the airlines is to determine whether or not they have successful business and administrative management at the head of their respective companies.

Second—They should then proceed to Washington en masse with the complete operation cost figures (based on their present equipment) and agree upon the proper rates for passengers, express, mail and cargo that will put the average airline in black ink.

Third—The next vital step is to immediately and intensively search the equipment now flying to determine that they have the most efficient equipment that is procurable, since the advance in aeronautics is so rapid that aircraft designed a few years ago cannot compete with the new equipment being manufactured today.

Effect of Safety Regulations

Paralleling the rapid advance in efficiency of aircraft has been the steady growth of the C.A.A. and C.A.B., which are constantly amending the safety regulations. I believe most of the aircraft industry are in accord with these requirements, but we all recognize that compliance requires more highly developed planes and equipment so that the manufacturer today is faced with an investment of many millions of dollars to comply with these much needed regulations, before a single airplane can be delivered to an airline.

The C.A.B., of course, recognizes that when new specifications are agreed upon as being necessary for safety that it is sometimes impossible to rebuild old equipment to meet the new regulations and if new equipment that passes the regulations is not available for delivery, they will grant safety waivers on the old equipment from time to time, until the airlines can see their way clear to replace the old equipment.

To go back to the question of airline earnings and reliability, and low operating costs, the Martin Company felt that until it was ready to make a major contribution to the airlines over equipment in use by them we would not invest the millions of dollars necessary to accomplish the completely new plane.

When the shooting wars were finished and the performance records of all of the ships were in and tabulated, it was reported by the government forces that the thousands of B-26's built by Martin had the least number of failures per sortie of any ship in the war, a twin-engine medium bomber. We had also made great advances in efficiencies during the building of thousands of B-26's and we were prepared to build an entirely new twin-engine transport.

New Planes Developed

A complete survey of all of the airlines and many meetings with their engineering departments brought out the fact that almost 70% of the mileage of the airlines could be more economically and efficiently carried with twin-engine equipment. Out of this intensive development, with the aid of the airlines engineering, the Martin 2-0-2 was put into production and now has a proven record for its class as the most efficient twin-engine airplane in the world today. Ten of these ships have been operated by Northwest Airlines for better than six months, establishing a new low cost and highly satisfactory service.

A quick comparison between the Martin 2-0-2 and one of the best known 21-passenger airplanes, which has been a very excellent ship of another make, but of the early vintage of transports, will give you the startling facts. We call it "The Case of Airline X." Operating for one year with 26 of these twin-engine transports, made available for the year 201,000,000 seat miles for the passengers of Airline X. With an average of 60% of those seats filled, they lost more than $1,300,000.

Now let's equip Airline X with 12 Martin 2-0-2's, which make available 207,000,000 seat miles per years, as compared with the 201,000,000 seat miles from the older 26 planes. And with an average of 60% of the seats occupied, the 2-0-2 fleet shows a profit of more than $1,700,000, as against a $1,300,000 loss by the other ships. The two sets of equipment carried approximately the same load, but in the case of the 2-0-2 the plane is almost 100 miles an hour faster and has all of the latest equipment and design approved for greater reliability. That, gentlemen, indicates the economic tragedy of airline operation today.

Financing Airline Equipment

Fourth—It is common knowledge that capital is not now available to the airlines through their usual banking connections, except in a few cases. Therefore, there has been considerable concern in government circles about the welfare of the airlines and studies are being made on methods of financial aid to the airlines for equipment purchases. There has been also some study of the equipment trust plan to furnish the much needed airline equipment.

Fifth—Research and survey of all terminal designs and equipment, and terminal management, which should lead rapidly into a far more efficient terminal operation.

The Air Transport Association, with representatives of the airlines, have been for some time making a study of the union terminal method. This work must be speeded up so that the final conclusions are available for the new era in terminal designs that must come into being.

Some preliminary inquiry in financial circles has been made in regard to privately financed terminal corporations. Sufficient encouragement from responsible houses leads us to believe that private funds are available for such ventures when the plan is perfected.

Members of the aircraft industry are now certain of the permanent and great importance of air transport service around the world in ever-increasing volume and we are all so certain that the aircraft industry of the United States has won, and will continue to hold, all of the air transport manufacturing markets of the world, with the exception of a very few countries who will wish to build their own transports regardless of their cost.

U. S. Position in Airplane Building

America will hold the greatest volume of production, as well as leadership in development, to which the markets of the small countries will flow, because it is a well known fact that the greatest influence on price of transports (as well as reliability) depends on the volume, over which the millions of dollars worth of research and tooling must be spread. Therefore the American market offers the greatest economy for the purchase of equipment, because it can spend so many more dollars on development and manufacture than foreign aircraft competitors.

In the matter of design, there will be rapid development and I predict that within 10 years the airlines will be equipped with planes carrying 36 or more passengers in luxury and completely free from vibration and sound annoyance, and their cruising speed will be 500 miles per hour and they can follow the better weather routes.

The merging of two of the

(Continued on page 47)

*An address by Mr. Martin before the Association of Customers' Brokers, New York City, April 27, 1948.

NYSE Strike Lags On

Fourth week fails to bring settlement as Schram rejects wage scale to be fixed by arbitrator.

President Emil Schram reports though the New York Stock Exchange has made substantial concessions in an endeavor to reach a settlement, it is still deadlocked.

Emil Schram

According to Mr. Schram, "even though the operations of the Exchange for the first quarter of this year show a net loss of $107,058, we have not withdrawn our offer on salary increases which would cost us approximately $157,000 a year. The Union's various wage demands have ranged in cost from $358,000 to $591,000. As we told the Union when the Exchange first made its offer, we made it on a basis of pay for comparable jobs where that was possible, and on the basis of job content where comparisons were not possible."

"Our offer," he added, "would bring our building maintenance people, elevator operators and porters above the figure on which the Union settled with the Curb. Though the jobs of the floor employees on the Exchange and the Curb are not strictly comparable, we believe that the Curb jobs are comparable to premium-pay jobs on our floor. Under our offer, the figure for our premium-pay jobs would pay $65.50 as compared to $63.80 on the Curb. These jobs are all short-hour jobs and when translated into an hourly rate, the rate is above $2 an hour. Though the Exchange has not increased its salary offer, we have offered very substantial sums of money to take care of the men who will not return to their jobs because of the fact that Exchange procedures have been simplified. Under our proposal everyone whose job has been abolished would be put on a special severance payroll for eight weeks, at the end of which time he would be given a separation allowance of one week's pay for each completed year of service with a minimum of two weeks."

Mr. Schram stated that at the meeting with the U. S. Mediation and Conciliation panel on April 21, "we did not accept the panel's suggestion that the Exchange wage scale be fixed by an arbitrator. This would be a misuse of arbitration. Arbitration has sometimes been used to settle labor disputes—too often to the detriment of labor and industry."

On April 27, it was reported by the striking United Financial Employees, Local 205, that its members by a vote of 597 to 3 decided to continue the strike.

Jones, Cosgrove Adds Two

PASADENA, CALIF. — George R. Liddle and Marcus B. Eilers have become affiliated with Jones, Cosgrove & Co., 234 East Colorado Street. Mr. Liddle was previously with First California Company as Pasadena representative. Mr. Eilers was with Geo. R. Miller & Co.

With First California

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — George S. Reeder has been added to the staff of First California Company, 300 Montgomery Street.

King Merritt Co. Adds

(Special to The Financial Chronicle)

MINNEAPOLIS, MINN. — King Merritt & Co., Inc., Pence Building, have added Noah D. Anderson to their staff.

World Bank Bonds Legal in Rhode Island

Information has been received on April 27 that favorable action has been taken by both branches of the Rhode Island Legislature on a bill making bonds of the International Bank for Reconstruction and Development legal investment for savings banks in that state. The measure now requires only the signature of the Governor to add this important financial state to the list permitting savings funds to be invested in these obligations.

There are nine mutual savings banks in Rhode Island carrying deposits in excess of $262,000,000. In addition to the substantial savings deposits of the large commercial banking institutions throughout the state.

Mutual savings banks are located in seventeen states, and of these, eleven holding 77.23% of all mutual savings deposits now permit investment in International Bank obligations.

Getting Into a Good Situation and Riding with It

By COL. HERBERT G. KING
Member, N. Y. S. E.

Now that the new bull market has arrived, it behooves the shrewd investor to consider the best way to make the most of his opportunities. Once a definite upward trend has been established, he can trade in and out of the market with a minimum of risk, but whether he can be right often enough to take care of the unexpected setbacks, is another question.

Col. Herbert G. King

With the present tax laws, even if he were successful, he would find that most of his short-term profits will go to Uncle Sam. Therefore, his best chance to retain his profits is to establish them as capital gains by holding his stocks for a period of six months or longer. This is fortunate for the trader for he will realize more capital without much effort. It also means that the stock market will attract new capital for investment.

From constant study of the methods used by the great traders of the past and close observation of the leading ones of the last 30 years, I have noted that the big money has always been made by getting into a good situation and riding with it until a predetermined objective was attained. First, a likely prospect was selected, a good position accumulated, and then stayed with until the anticipated goal had developed. Any trading was done against a position, with the idea of making a healthy market and for advertising purposes. The secret is to select a good situation with great possibilities, but this is not so difficult. A little serious thought must be applied to what will take place a few years hence, in what fields will the great industrial developments take place, and what companies by their position, capital, good management and superior products will benefit the most.

There are several situations right now that almost anybody can figure out for himself with a little thought, patience and courage. The opportunities are all around us, but it remains to be seen who will take advantage of them and who will be called lucky a couple of years hence.

Herrick, Waddell Adds

(Special to The Financial Chronicle)

CHICAGO, ILL.—Emory H. Wilder and Paul Herbert are connected with Herrick, Waddell & Co., Inc., 55 Liberty Street, New York City.

Two With C. E. Abbett Co.

LOS ANGELES, CALIF.—Samuel J. Blake and Otis F. Brooks have been added to the staff of C. E. Abbett & Co., 3277 Wilshire Boulevard.

Mutual Funds

By HENRY HUNT

First Quarter Sales Off 31%

Net sales of mutual funds during the first quarter of 1948 amounted to $35,800,000, off 31% from the $52,200,000 sales total of the same period last year. While gross sales were off only 16%, an increase of approximately $5 million in liquidations contributed to the unfavorable comparison of net sales. Trading on the New York Stock Exchange was off only 10% during the same periods.

Thanks to the phenomenal sales record of **Affiliated Fund** during the first quarter of 1948, net sales of common stock funds showed a slight increase over the first quarter last year. On the other hand, net sales of balanced funds were off 17%, while sales of bond and specialty funds showed the precipitate decline of 74%. Fairly heavy liquidations of bond funds and industry groups contributed to the disappointing showing of bond and specialty funds.

Total net assets of 80-odd funds as of March 31, 1948 amounted to $1,443 million as compared with $1,321 million a year ago. The following figures show the allocation of assets as of March 31, 1948:

	(in millions)
Common Stock Funds	$667
Balanced Funds	344
Bond and Specialty Funds	432
	$1,443

It will be noted that common stock funds equal 46% of the total. However, it should be pointed out that several sizable common stock funds and balanced funds including all Keystone Common Stock Funds, Diversified Investment Fund of New York Stocks, Fully Administered Shares of Group Securities, etc., are classified as bond and specialty funds in the above tabulation. If the equity funds classified as specialty funds were included in the common stock group, assets of the latter would exceed half of mutual fund total assets.

R. H. Johnson Launches Five New Funds

R. H. Johnson and Company of New York, with a retail sales organization numbering 85, recently brought out a new open end trust known as **Franklin Custodian Funds.** It is divided into five series with portfolios as follows:

(1) Second Grade Bonds
(2) Second Grade Preferreds
(3) Common Stocks
(4) Utility Commons
(5) A "balanced" income fund

Sales by R. H. Johnson's retail organization are reported satisfactory with more than $100,000 worth of the common stock fund alone being sold during the first week. At a later date, a wholesale organization, as well, is planned.

There Is a Mutual Fund for Every Investor's Need

J. Arthur Warner's **L. B. Gage** has written an interesting pamphlet on mutual funds under the above caption. He concludes:

"I have tried to show that mutual funds have attained their maturity, that each one must by law adhere to its fundamental policy, and that singly or in combination they are a simple scientific method of investing one's funds. Actually their use forces one to do the most important thing first, namely, determine one's investment objective before investing. Just as you tell your insurance agent what type of policy you wish, so must you tell your investment dealer what type of investment need you have."

Copies of this booklet may be obtained from L. B. Gage, Longmeadow, Mass.

February Break Provided Buying Opportunity

The sharp decline in stock prices during the first three weeks of February provided a buying opportunity for which many mutual funds were waiting. For example, **Investors Mutual** invested more than $4,200,000 in common stocks during the first quarter, and, although the "Dow" was 2% lower on March 31 than it was at the year-end, **Investors Mutual** showed a profit of 7½% on March 31 above the cost of its new equity purchases, some of which follow:

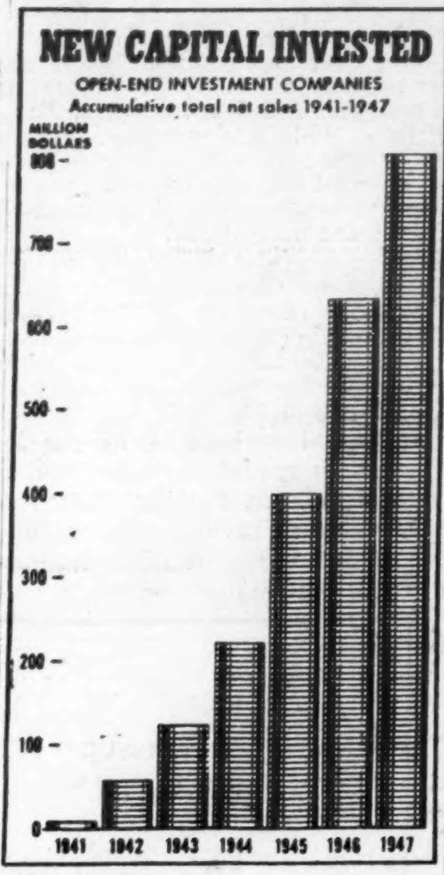
Issue	No. of Shares Purchased	Average Purchase Price	Market Price 3-31-48
Common Stocks			
Food Machinery Corp.	1,500	34½	40½
General American Transportation	5,500	53.16	56½
Gulf Oil Corp.	7,500	58½	64⅞
Kennecott Copper	3,000	44.80	53⅜
Mission Corp.	4,700	47.20	59¼
Monsanto Chemical	5,900	53.21	58
Montgomery Ward	3,545	50.71	55
Chas. Pfizer & Co., Inc.	1,100	49⅛	57⅝
Texas Co.	2,500	53.84	57¾

Investors Mutual also invested $434,000 in preferred stocks and $444,000 in bonds during the first quarter. At the quarter's end profits on these purchases were equal to 5% and 1½% respectively.

A 300% Sales Gain Forecast

The accompanying chart was prepared for **Arthur Wiesenberger's** April **"Investment Company News"** which discusses the extraordinary growth and steadily increasing amount of new money placed in mutual fund shares since the enactment of the 1940 Investment Company Act. The following paragraphs are excerpts:

"Sales of new open-end shares totaled $587 million in the three years 1945-1947 compared with a $3.3 billion total of corporate stock issues sold to raise new capital and a $9.5 billion total of all corporate securities sold for new capital in the same period. Thus, open-end share sales amounted to 18% of the new money raised by corporate stock issues, and to 6% of all new corporate issues. If the same proportions are applied to President Truman's recent $50 billion estimate of new corporate capital needs over the next five or six years, the figures for total new public purchases of open-end shares reach a sum of $3 billion or a volume of trust share business about 300% of the current level.



"Open-end investment companies are an important factor when it comes to raising new capital, even though they very seldom buy the new issues themselves, because the money placed in these funds is in turn placed in general market securities. The latter are in turn bought from other shareholders, thus releasing their funds for investment in the new securities floated by corporations for purposes of capital expansion. In the years ahead, this role will unquestionably become increasingly important — for the companies, the investment banking field as a whole and the U. S. economy."

W. W. Brooks Joins Schirmer, Atherton

BOSTON, MASS.—William W. Brooks, member of the Boston Stock Exchange, has joined the staff of Schirmer, Atherton & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges. Mr. Broks formerly conducted his own firm of W. W. Brooks & Co. Prior thereto he was with Brooks, Smith & Co. He began his investment business in Boston in 1893 with W. J. Hayes & Sons.

B. C. Ziegler & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

WEST BEND, WIS. — B. C. Ziegler & Co., 215 North Main Street, have added to their staff A. M. Bursen, Frank A. Carey, Leonard P. Haughian, James T. McEniry, Joseph O. Obertin, John Schreiner, II; Herman C. Tills and John A. Zesiger.

Skall, Joseph to Dissolve

The New York Stock Exchange firm of Skall, Joseph, Miller & Co., Cleveland, Ohio, will dissolve on May 1.

Jorg, Inc. in Franklin

(Special to THE FINANCIAL CHRONICLE)

FRANKLIN, IND.—Jorg, Inc., is engaging in a securities business from offices at 235 Terre Haute Street.

COMING EVENTS

In Investment Field

April 29-May 1, 1948 (Ft. Worth, Tex.)
Texas Group Investment Bankers Association Spring Meeting.

April 30-May 2, 1948 (Gulf Hills, Miss.)
Meeting of Southern Group of Investment Bankers Association.

May 3, 1948 (St. Louis, Mo.)
Meeting of Mississippi Valley Group of Investment Bankers Association.

May 4, 1948 (New York City)
Security Traders Association of New York stamp tax meeting, Lower Church Hall, Our Lady of Victory Church, Pine & William Streets, 4 p.m.

May 6, 1948 (New York City)
Bond Club of New York Dinner Meeting at the Waldorf-Astoria Hotel.

May 10, 1948 (New York City)
Annual Election New York Stock Exchange.

May 12, 1948 (Detroit, Mich.)
Meeting of Michigan Group of Investment Bankers Association.

May 13-14, 1948 (Toronto and Montreal)
Meeting of Canadian Group of Investment Bankers Association (May 13 in Toronto; May 14, Montreal).

May 17, 1948 (Boston, Mass.)
Meeting of New England Group of Investment Bankers Association of America.

May 22 and 23, 1947 (San Francisco, Calif.)
San Francisco Bond Traders Association annual outing at Northwood Lodge, on Russian River.

May 28, 1948 (Pittsburgh, Pa.)
Pittsburgh Securities Traders Association Annual Outing at the Shannopin Country Club

June 4, 1948 (Cincinnati, Ohio)
Municipal Bond Dealers Group of Cincinnati Annual Spring Party at the Kenwood Country Club.

June 4, 1948 (New York City)
Bond Club of New York Annual Field Day at the Sleepy Hollow Country Club, Scarborough, N. Y.

June 11, 1948 (New York City)
Corporation Bond Traders Club of New York Spring Outing and Dinner at the Wingfoot Golf Club, Mamaroneck, N. Y.

June 11, 1948 (Pittsburgh, Pa.)
Bond Club of Pittsburgh Annual Spring Outing at the Chartiers Country Club.

June 12, 1948 (Chicago, Ill.)
Bond Traders Club of Chicago Annual Golf Party at the Acacia Country Club.

June 18, 1948 (Boston, Mass.)
Municipal Bond Club of Boston annual outing at the Country Club, Concord, Mass. To be preceded by parties at the Hotel Statler on the evenings of June 16 and 17 from 9:30 p.m. until midnight.

June 18, 1948 (Philadelphia, Pa.)
Philadelphia Securities Association annual outing at Llanerch Country Club, Llanerch, Pa.

June 22, 1948 (Boston, Mass.)
Boston Security Traders Association 29th Annual Outing at Woodland Golf Club.

July 9, 1948 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia Annual Summer Outing at the Tavistock Country Club, Haddonfield, N. J.

July 16, 1948 (Toledo, Ohio)
Bond Club of Toledo annual outing at the Inverness Country Club.

Nov. 15-18, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

The Congressional Program

By HON. KENNETH S. WHERRY*
U. S. Senator from Nebraska

Republican leader defends record of 80th Congress and upholds Taft-Hartley Labor Act and tax reduction measure. Blames difficulties of foreign situation on secret deals of Roosevelt Administration. Justifies heavy defense expenditures, but denounces government waste and extravagance. Advocates increasing air power and opposes economic controls as converting nation into a police state.

Business and industry are jittery over domestic uncertainties. And the din of war alarms have been sounded by the Administration with a violence never before heard in peacetime. You are wondering, each of you, if they are justified, and so am I.

Sen. K. S. Wherry

Recently, a business acquaintance of mine came to Washington to see the wheels of government go around. Within a few days he was so bewildered, he said to me: "Senator, there are too many crises and emergencies in Washington. They have got me down. I'm going home where life is more peaceful."

Now, I hope you will not be bowled over by the confusion in Washington. If you stay long enough, you will get used to this sort of thing. We, in Congress, have become calloused to it. We do not scare so easily any more. If there is a crisis it will have to be justified.

When the present 80th Congress took over, a little more than a year ago, we received our orders from the nation. The broad, general mandate directed the government be restored to the people, where it belongs. During more than a decade too much State government and home rule, by bits and pieces, had been gradually drawn to Washington — drawn from the people—from the States —and from the local communities. This was accomplished in a thousand different ways—grabbing here and grabbing there. All kinds of devices were used to undermine our historic American way of life—push the people around with rules—regulations—controls—and directives. Of course, during the war, the American people patriotically cooperated in government regimentation, but with the end of hostilities they demanded restoration of their traditional freedoms.

Record of New Congress

The record of the new Congress reveals that it boldly broke the shackles forced upon the people by the New Dealers in Washington. You businessmen still shudder when you recall the more than 76,000 orders—rules—regulations, and directives in force at the end of the fighting in the last war. The nation had directive indigestion. It was sick of them.

Thousands upon thousands of these orders and directives have been repealed. Across the country there was a great sigh of relief. Industry—agriculture — mining—all segments of our economy—and all parts of our population breathed a prayer of gratitude for the green light to go ahead—the American way.

Some of the planners in high government posts failed to understand the tremendous initiative and the creative ability of the American people. Their crystal globes got all fogged up.

They predicted 10 million unemployed. They prophesied an immediate slump in business. And before the smoke of battle even cleared they geared their program accordingly. We know now, of course, their dire predictions were simply ridiculous. Time has proved that with the ending of governmental controls — agriculture and business generally flourished.

The result was that instead of another deficit in the Federal Treasury, a handsome surplus of $7 billion was rolled up for the first time in 17 years.

Instead of men walking the streets looking for jobs—they were looking for things to buy.

Experience had shown that industry cannot flourish, and the peacetime demands for goods cannot be supplied, if our economy is to be subjected to round after round of strikes, paralyzing industry, and throwing thousands of laborers out of work. Before the 80th Congress took over, the year of 1946 was the blackest in our nation's history. A total of 100,800,000 man-hours of work were lost. And, unfortunately, most of them were in bottleneck areas that held up production all along the line.

The people demanded Congress act to meet this situation head-on, and do something about it. Congress did. It passed the Labor-Management Relations Act. This Act to benefit all workers is doing the job.

President Truman's dire predictions, made when he vetoed the bill, failed to materialize. How strange does fortune's wheel revolve! Both the President and John L. Lewis sought refuge in its provisions during the recent coal strike. If the Act had not been on the books, it is doubtful the strike would be ended now.

Under the Labor Act, we see the pendulum swing back to a decent, sensible relationship between management and labor. The control of the unions has been placed in the hands of the workers. The Labor Act is the workers' Bill of Rights.

It now becomes a challenge to management to prevent misuse of this law to abuse labor. It is management's responsibility to use it, so labor can understand its provisions and get the benefits of the Act.

Its operation will disclose whether there are defects within its provisions. Congress created a Special Joint Committee to observe the operation of the Act, and to recommend any desirable changes. If injustices show up to the detriment of labor—or to the detriment of management—and particularly to the detriment of the public welfare, then they will be dealt with. I will support any measures to correct such errors.

Perfection is the goal, but not the kind of perfection Senator Tobey tells about. The other day he said he heard of a clergyman who asked the congregation if anyone present knew of a perfect man. A timid little man in the rear of the church arose and said: "I do." "Who?" asked the preacher. "My wife," said the little man, "tells me her first huband was a perfect man."

Impact of Foreign Policy

Our labor problems at home have become aggravated because of our foreign policy and its impact upon our domestic economy. They are problems now costing our people billions of dollars directly in taxation, and indirectly through higher living costs.

Most of the world's ills today—ills that have cost us billions in treasure, and heartbreaks over the delay in peace—can be traced to secret deals made at Quebec—Yalta — Teheran — and Potsdam. Secret deals about which the American people were not consulted—about which the Congress was not consulted—secret deals about which the Senate was not asked for advice and consent.

It was secret diplomacy in its most dangerous practice. It is the carrying out of these commitments that has added to our woe. What a price—what a price generations of our people must pay, because secret deals and lack of alertness coincided to play havoc with American ideals and objectives for which precious blood was poured out.

Had the majesty—strength—and exalted position of the United States been exercised in the war—and immediately after the war, to the fullest degree—had we adopted a policy toward Russia then, that we are attempting to adopt now, we would not be confronted with one emerency after another.

Just think of it, more than 80% of the Federal budget now goes toward national security—aid to foreign countries — prevention of war—and for liquidation of past war—and the proportion is rising very rapidly.

Dangers of High Taxation

If America is going to help a tottering world, America must be kept strong. It was to keep America strong that the 80th Congress passed the bill to reduce Federal income taxes.

More governments have been wrecked through excessive taxation than by any other single cause in history. The cut in taxes must be followed by a cut in governmental expenses and a reduction of governmental bureaus unnecessary to national defense, and to the national economy.

A Joint Congressional Commission is now studying the functions filched over the years from the States and local governments which have been added to the maze of the Federal machinery, now so powerful that it dares to defy Congress itself. The necessity for billions for defense is no excuse for appropriating billions—or millions—or even hundreds of thousands, for waste or extravagance.

And right here is where your membership has a golden opportunity and responsibility to the American people. It is to help us stop pressure groups from asking for appropriations for their multitudinous pet schemes. The end result will be socialization of American industry unless the pressure groups are halted. We hear a lot of talk about economy but too many want the "me" left out.

Federal, State, and local taxes consume more than one-fourth of the national income. That is a danger signal.

When the American people pay more for government annually than for their food bill, it is time to call a halt. We have now reached that alarming situation.

I voted for tax relief because—

(1) The new law exempts 7,400,000 people from paying any taxes. They could not weather high prices and high taxes. Prices are swollen by 25 cents of taxes out of every market dollar. Housewives of America know that.

(2) More than 71% of the ben-

(Continued on page 46)

*An address by Senator Wherry at the 36th Annual Meeting of the Chamber of Commerce of the United States, Washington, D. C., April 26, 1948.

The Challenge to Business

By ARNO H. JOHNSON*

Vice-President, J. Walter Thompson Company

Market analyst foresees, as result of wartime increase in production capacity, higher living standards. Says this development can be aided by increased advertising and selling efforts. Contends ability of public to consume could be doubled and estimates real purchasing power in 1948 at 53% above 1940. Points out magazine advertising cost has declined 27% in this period in relation to purchasing power.

Not many years ago there was a widely accepted thesis that America had reached maturity—that we had "a mature economy" which necessarily meant limited markets, limited production, and a large segment of the population chronically unemployed and on the dole. A stabilized standard of living was implied, with the only opportunity for improvement being in the lower income groups which might be brought nearer to a common low average by "sharing the wealth", with a consequent lowering of the standards of the better income groups. There was little belief that any new frontiers existed in America or that the whole level of living could be raised through the creation of more wealth and through the fuller utilization of our productive ability and our manpower.

Arno H. Johnson

That thinking still permeates our economy and has been reflected by many of our economists, writers, government officials, labor leaders and business executives, over the last three years, in their constant anticipation of impending serious depression and unemployment. They just can't believe that we can avoid returning soon to the prewar levels of lowered standards of living and unemployment.

Now, obviously, the standard of living in any nation must depend on the amount of goods or services available for consumption by individuals of that nation. The potential supply of goods and services in turn depends on the availability of raw materials, the size and skill of the labor force, and the tools plus the "will to work" that make possible high productivity by a labor force.

A Higher Standard of Living

World War II proved, beyond any shadow of doubt, that America has the productive ability — both in terms of materials, labor force, and the technical ingenuity to make that labor force productive—to produce goods and services far beyond what was dreamed possible in the days of the "mature economy." By utilizing our full labor force and supplying workers with improved tools of production we have been able to step-up our production so that it is possible to have much more goods available for consumption. Further, it is now evident that, provided investment capital is made available for new and improved equipment, the productivity of our population could be still further increased so that our potentiality for production — for increasing still further the amount of goods available for consumption—is still capable of large expansion. In other words, there is still a major opportunity for raising the standards of living in America even though standards in this country are now the highest of any major nation in the world.

Now that necessity for production to win the war has opened our eyes to the possibilities for increased standards of living in peacetime, we must look carefully at the other side of the equation —that is, to the creation of sufficient demand to provide a market for the goods and services we have proved we can produce. Here we must look beyond the temporary shortages — the rush to catch up with deferred demands and the temporary necessity of feeding and reconstructing a wartorn world. We must take a look at what is necessary to maintain the high level of domestic consumption after these temporary factors affecting demand have passed — to the point where we once again return to the more normal situation of a "buyers' market." In many parts of our domestic economy this "buyers' market" already is upon us with its problems of creating a sufficient demand to keep the factories busy.

The mass of our population already lives at standards far above the bare subsistence level of food, shelter and clothing. They could, if necessary, get along and sustain life on very much less than they now buy. They could defer many purchases entirely or for long periods of time even though they have adequate purchasing power. This fact makes doubly important the psychological factors affecting desire and common wants and the translation of these wants into active buying demand.

Factor of More Advertising and Selling

By expanding these wants advertising and selling can become a major educational factor in building the demand for new and better products — a demand for stepping up from one standard of living to the next in such a way that markets for goods and services can be expanded to the point where they will sustain the high level of production and employment this country is capable of reaching.

Since the war our economy has operated on a very high level. It must be kept high because "break-even points' are, in most businesses, so much higher than prewar that any major recession in consumer demand would quickly make production unprofitable

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*An address by Mr. Johnson before the Annual Magazine Forum, New York City, April 28, 1948.

Urges Government to Work with Lay Groups in Forming Policy

L. M. Giannini, President of Bank of America, says best minds must be brought into government if our responsibility in world affairs is to be fulfilled. Holds paternalism is becoming our greatest weakness.

A refreshing viewpoint on world prospects for peace and plenty was expressed on April 17 by L. M. Giannini, President of the Bank of America. Addressing 600 branch managers and administrative officers of the bank at the opening session of a three-day management conference, at Pacific Grove, Cal., Giannini declared: "This world is going to be what Americans make it.

L. M. Giannini

"We will make it a good world if we are intelligent, energetic and resolute. Opportunity is ours as a nation to make an investment in money, brains, influence and power and bestow upon the world an era of peace and progress."

He told his audience of executives of the world's largest bank that it was clear America must move vigorously to assert her manifest position of leadership in world affairs.

"The picture is becoming clearer every day," he asserted. "We have fallen heir to the task of exerting world stabilizing influences, a role which comes by default, not of our own ambition.

"In the interests of world well-being we must lay hold on these responsibilities boldly and give the world the positive leadership it so badly needs. Devotion to this great task would assure a century of world-wide social and economic progress. It must be seen as an opportunity rather than a burden."

We must bring our very best minds into government, he pointed out, and must be less ingenuous in the world theater, and learn quickly how to match wits, wisdom and stratagem with older nations in diplomacy and in trade, commerce and banking.

"We must also have continuity in our national policies," he stated, "for world leadership cannot otherwise be maintained. Our course must have direction and we must follow it consistently instead of indulging ourselves in turnabout and vacillation with every change of administration."

This requires, he said, that America have soundly established, perpetually operating official boards or organizations combining government and lay talents of the highest order, to deal with the international aspects of government and business. One of the most successful foreign trade countries has used this system effectively for generations with the result that the government in office, regardless of its political label, has been assured of counsel from the nation's best minds.

"If the United States," declared Giannini, "is going to accept world leadership, and it must if the world is to be led out of its present state of confusion and uncertainty, it will mean work, and hard work, for all Americans.

"Substitution of paternalistic cradle-to-the-grave philosophies for the self reliance which built this nation is probably America's greatest weakness today. It is certainly a crippling factor in our production problem. The delusion that an unearned luxurious living is anyone's right has become ominously popular.

"Our technological improvements are not for the purpose of reducing work but for increasing production so that more people may have more things, more food, more clothing, better homes and greater security. The slothful man never has been an asset to society and never will be.

"In many countries today," he concluded, "the people believe they have nothing to work for. We Americans do have something to work for. Let's be equal to our opportunities."

He announced that Bank of America was expanding its own overseas organization in order to help implement the Marshall Plan, a plan "which must be made to succeed but can only succeed if every element involved puts forth its maximum efforts."

J. W. Beyen Elected Director of IMF

Johan Willem Beyen of the Netherlands has been elected Executive Director of the International Monetary Fund by the Netherlands and the Union of South Africa, it was announced on April 22 by the Fund. Mr. Beyen succeeds the late Dr. G. W. J. Bruins in this capacity.

J. W. Beyen

Mr. Beyen was Financial Director of Lever Bros. and Unilever Ltd. from 1940 to 1946. From 1935 to 1940 he was connected with the Bank for International Settlements at Basle, first as Alternate to the President, and from 1937 on as President of that institution. Mr. Beyen was Managing Director of the Rotterdamsche Bankvereeniging from 1927 to 1935, and during this period represented the Netherlands Government at the German Standstill Agreement discussions and at the London Economic Conference in 1933.

In addition to his present position, Mr. Beyen is also currently Financial Adviser to the Netherlands Government, a post he has held since 1940, and is an Executive Director of the International Bank for Reconstruction and Development.

Willem Koster, who became Acting Executive Director of the Fund for the Netherlands and Union of South Africa following Dr. Bruins' death, has been appointed by Mr. Beyen as his Alternate.

Cincinnati Municipal Men Change Date

CINCINNATI, OHIO — It has been necessary to change the date of the Spring Party of the Municipal Bond Dealers Group of Cincinnati to June 4. The party is to be held at the Kenwood Country Club, and was originally set for May 25.

G. R. Wortman & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

AURORA, ILL.—Arthur L. Ludolph is connected with G. R. Wortman & Co., Aurora National Bank Building, members of the Chicago Stock Exchange.

Burgess Presents Program For Economic Stabilization

As Chairman of ABA Economic Policy Commission, he refers to dangers of inflation and urges vigorous voluntary efforts by banks to restrict their lending to productive purposes. Sees need for keeping down Federal Budget.

The "visibility" is about as low as it has been in the economic situation for a long time because the forces of inflation and deflation are balanced against themselves and the future is not clear, W. Randolph Burgess, Chairman of the Economic Policy Commission of the American Bankers Association, reported to the Executive Council of the ABA at French Lick, Ind., on April 19. Mr. Burgess is Chairman of the Executive Committee of The National City Bank of New York, New York.


W. R. Burgess

Mr. Burgess said: "This country has been in the midst of a great economic boom, in one of the great price inflations of all time. Only a few months ago, in fact the early part of this year, the price figures mounted to a point comparable to the prices in 1920. It was considerably above the prices in the great inflation after the Civil War and compared with the prices at the conclusion of the American Revolution.

"There is nothing mystical about this. There is no law that when prices have reached that point, they have to go down; but our economic experience tells us that the higher they do go, the harder they fall.

"However, several things happened in recent months that at least temporarily levelled off commodity prices. One of those things was the Federal Reserve and Treasury policy—a very courageous money policy, more courageous than any of us ever dared hope would be followed; a steady increase in short-term money rates which finally filled the endless vacuum for those long-term bonds; the rise in Federal Reserve discount rates; the application of Treasury balances to paying off the debt; and, finally, the policy of 'Christmas Eve,' which we all remember as giving the bond market a good jolt.

"Now, the second thing that was done was the anti-inflation policy of the American Bankers Association; and that we all agree was a sound and ably conducted policy and did have helpful results.

"The third thing was the drop in agricultural prices. We knew that prices were too high, but the precipitous drop in January and early February appeared, at least to many of us, to turn the tide in this inflationary move.

"I think we are all agreed that there are certain new forces that have come into the picture that have changed our hopeful feeling and have made us wonder whether we still face the old problem of inflation.

"One of these, of course, is the passage of the European Recovery Program with its added expenditures of $6,300,000,000. The other is the armament program; and now the tax bill. We will have to admit to ourselves that this was not an anti-inflationary move. I think it was the right thing to do. It has certain long-range advantages in preserving our system of enterprise.

"The forces of deflation, of leveling off prices, appeared to be setting in, and then these new forces have come along. Where will the struggle end?

"To meet this situation, we must continue, and continue vigorously, the voluntary efforts that the bankers of the country are making to see to it that their loan policies are sound, are productive, and are not encouraging any inflation.

"Second, we must look to the banking authorities of the Federal Reserve and the Treasury to do their utmost to pursue a non-inflationary and anti-inflationary policy to the extent necessary.

"The third thing that has to be done is to deal with the government budget. That's the key to credit inflation and deflation.

"I think we all ought to examine, as we face huge necessary expenditures and other phases of government spending, to see whether there are some that can be cut. You can't do it just by little shifts in administration, by tightening up a few screws here and there. To really do it, you have to examine basic government policies. There are also a series of other points in our national budget where we need to sit down and reconsider the policy of what we expect from our government. This isn't just a policy of battling inflation. It's a long-term policy, for I believe we cannot with complacency look forward to the government spending $40 billion a year—such a huge percentage of the national income—without realizing that that would mean a different kind of a democracy than we were brought up in."

Collins to Address IBA Group Meetings

CHICAGO, ILL.—Julien H. Collins, President, Investment Bankers Association of America, will during the next three weeks make his annual visits and will address IBA Group meetings scheduled as follows:


Julien H. Collins

Texas: April 29-May 1 at Fort Worth; Southern: April 30-May 2, at Gulf Hills, Miss.; Mississippi Valley: May 3, at St. Louis; Michigan: May 12, at Detroit; Canadian: May 13, at Toronto, and May 14, at Montreal; New England: May 17, at Boston.

He will be accompanied by two other officials of the Association—Murray Hanson, Washington, D.C., general counsel, and Alden H. Little, Chicago, Secretary Emeritus. Mr. Collins is President of Julien Collins & Company, Chicago.

S. F. Exchange to Open At 7 a.m. During Daylight Saving Time

SAN FRANCISCO, CALIF.—The San Francisco Stock Exchange announced on April 21 that commencing Monday, April 26, and during the period of daylight saving time in the East the Exchange will open at 7 a.m. There will be no change in the closing time.

Inflationary Trend and How to Correct It

By PAUL H. NYSTROM*
Professor of Marketing, Columbia University
President, Limited Price Variety Stores Association

Asserting current inflation is serious, Dr. Nystrom holds it is intensified by wage increases unaccompanied by increases in productivity. Attacks proposals to increase minimum wages and says minimum wage is no longer a means of protecting lowest paid workers but an ingenious method of getting higher wages through collective bargaining, and, under existing conditions, is a force for higher prices. Concludes present inflation in U. S. is in part due to widespread application of minimum wage principle.

This country is now in the grip of a serious inflation. I question whether most people realize how serious it is. It began back in the late 1930s. It was stimulated by the war. It has continued since the war. It is still continuing. The end is not yet in sight.


Paul H. Nystrom

The facts speak for themselves. Since 1939 the index of retail prices has gone up nearly 70%. The index of wholesale prices has more than doubled. The amount of money in circulation is up nearly three times. Savings and liquid assets easily converted into money are also three times what they were before the war. The demands for consumer goods are widespread and insistent. There are sharp shortages in housing, housing materials, paints, home furnishings, automobiles, farm equipment, many lines of clothing, and in most foods. People with their excess cash are bidding for goods which they could not get during the war and which are not yet available in sufficient supply.

The production of consumer goods which fell off so sharply during the war years has shown some gains during the past two years. In a few classes of goods production has reached the point of taking care of present demand but at present high prices. In most lines, however, there are still shortages.

In addition to the large demands experienced during the past two years for goods of practically all kinds within our own country, our factories and farms have been called upon to supply billions of dollars' worth of goods to foreign countries. This demand is now about to be augmented by the recent passage of the Marshall Plan, now called the European Recovery Plan. Under this Plan some $5,300,000,000 worth of goods must be found and purchased in this country and sent abroad. Another $5,000,000,000 in purchasing power will become available during the next 12 months due to the reductions in the income tax.

The reduction in the tax rate is not, however, purely inflationary, for if the money had gone to the Government, the Government would have continued to spend it and the spendings of the Government are just as inflationary as the spendings of private individuals. But manufacturers, wholesalers and retailers who cater to the consuming public will be called upon by consumers to supply them with about $5 billion additional merchandise. The new demands will fall upon you and your prices will not go down. They will probably go up. You can't play with billions of dollars in purchasing power in this, or in any other economy, without affecting the price structure.

Prices, as we have seen, have risen. They had to rise. With three times as much money and purchasing power and with less than 80% increase in production since 1939, one does not have to be an economist or a sooth-sayer to see that prices had to go up. There were some who thought that the price recession that occurred in January marked the end of the inflationary wave. That belief has been turned to disappointment. The need for the readjustment of prices of certain commodities caused the January flurry. There are undoubtedly many other commodities in which such readjustments must occur. But the underlying economic conditions point to higher and still higher prices. Nothing has been done, as yet, to stop this inflation. It has not yet reached its peak.

Inflation is a dangerous thing. History is full of the records of inflations. They have always been followed by reaction and depression. They have sometimes been followed by widespread economic disaster. We have no right nor reason to assume that the present inflation may come out differently unless we do something to prevent its running on to disaster. I do not hesitate to say that we are heading for trouble unless measures are taken, first, to stop the inflation and, second, gradually to reestablish the balance of our purchasing power and of our production on a sound and stable basis.

The causes of inflation are simple and the cures, if we will but use them, are not too technical. When there is more money or purchasing power than goods and services there is inflation. When production catches up and exceeds purchasing power, prices tend to stabilize and to decline and the inflationary trend is ended.

In most cases in the past inflations were caused by the reckless issue by governments of unregulated and unsecured paper money. In such inflations there was more paper money than goods. At the present time there is too much government paper money and under the preparations that must go on to make this country militarily strong, to take care of commitments under the Marshall Plan, and to supply the insistent con-

(Continued on page 38)

*An address by Dr. Nystrom before the Hosiery Institute Conference, Atlantic City, N. J., April 20, 1948.

Securities Salesman's Corner

By JOHN DUTTON

Some of us go through life with our eyes open. That is, we learn as we live. Know how—skill—how to do it well; all are acquired by experience. But we must do things the RIGHT way, no matter what it is that we are doing. When I was a boy my father bought me a fiddle. After two years of sawing away, my small town music teacher decided that I was becoming quite a virtuoso. My proud parents then sent me to a wise old German professor who knew his fundamentals and also how to teach. I proudly stood before him and started my audition. After that auspicious occasion he would not let me play a note. First I had to learn to pull the bow across the strings. This took six weeks of steady practice. Only after I could draw the bow steadily and properly would he allow me to go ahead. One day I meekly protested that I thought I should be allowed to play some music and this was his reply: "For a long time you have been doing things the WRONG way. You come to me, now you must make it right. It is like a carpenter with the hammer. He puts a nail in the wrong place, because he is careless, lazy, or he knows no better. He keeps hitting the nail again and again. The more he hits it the harder it is to take out. But some day the nail must come out. Then he must pull and pull, and it is hard work. IT IS NO GOOD TO DO THINGS THE WRONG WAY."

The old professor was not only right about his music but his philosophy can be applied to every job that requires skill and training. Each day as we go about our work we can build a foundation for our future happiness and success by acquiring the work habits, and "know-how," that will impress others with our own ability, knowledge, sincerity of purpose and industry. These are the cornerstones of every successful (securities) business. Every person we meet consciously or unconsciously makes a judgment of us, and whether we know it or not, we rise or fall because we measure up, or fail to do so. All around us we see people who have acquired certain traits of character, ways of doing things, manners of speech, ideas for performing certain tasks the more effective way.

The other day, I sat in my office and listened to a dealer friend interrogate the president of a company whom I know well, and whose securities we were investigating. I've been asking questions of management for quite a few years myself, but as I sat there and listened to the way this security dealer went about the job, I made a mental note of the way he did it. He went straight to the heart of the situation—clearly, concisely, he drew out the information that he needed. Any investor that buys the securities this man offers him will have the benefit of knowing what makes the wheels go round. But I learned a few things myself. Every day of our lives we can learn something that will HELP US to do a better job with less effort. That is one of the secrets of success—to LEARN something helpful as we go along.

For life is a chain of circumstance. No business more closely approximates the everyday occurrences of our normal activities than does the investment business. This is because it is a PERSONAL business. We meet a client, we make a friend, he tells us of another friend, we build and build. Sometimes circumstances such as prolonged bear markets come along and part of the edifice we have so patiently constructed comes tumbling down. But we never know when the little thing we do today can mean the big thing tomorrow. There are contacts that lead to opportunities that are always coming before us. Every day is a new day, and the door can be opened to an entirely different and promising TOMORROW, if we can only remember TO PUT THE NAIL IN THE RIGHT PLACE BEFORE WE HIT IT WITH OUR HAMMER.

Snyder Wants World Bank Issues Exempted From Securities & Exchange Commission

In a letter to Speaker Martin, Secretary of the Treasury, John W. Snyder, recommended to Congress on April 22 that securities of the International Bank be exempted from regulation under the Securities and Exchange Acts. Secretary Snyder told Speaker Martin the National Advisory Council on International Monetary and Financial Problems wanted to ease the way for the raising of more funds by the International Bank in American securiites markets. He said increasing requests for loans from the bank are anticipated in the next few years and the Council requests that the Securities Act of 1933 and the Securities Exchange Act of 1934 be modified so as to exempt securities issued or guaranteed by the International Bank from registration with the Securities and Exchange Commission.

Management's Task Toward Economic Stability

By RICHARD R. DEUPREE*
President, Procter & Gamble Co.

Mr. Deupree stresses economic importance of stable employment and argues it must be worked out eventually on a national basis. Cites its success in his company, and points out its value in cutting down investment in plant and equipment. Says stable employment does not mean guaranteed wage and it cannot be accomplished by legislation, but must be worked out by management.

The subject which I have chosen to talk about tonight, "Management's Responsibility Toward Economic Stability," may be timely or not. It is a subject close to me and my way of thinking, a subject that the country should hear more about, if we are to set our economic house in order on a stable, balanced basis.

Richard R. Deupree

Certainly this is a most difficult period. In spite of all of the black predictions to the contrary, we have reached and maintained peak production in the three years since the war. You know our past experience when there was no place to go but down, after such a similar period. That is why I think it is timely to discuss what should be done and what can be done on a long-term basis to keep the country from going into a "nose dive," with resulting widespread unemployment, as has happened so many times before.

The whole history, of not only this country, but the entire world, has been a series of ups and downs, of violent fluctuations. These always bring about a great deal of suffering and, as we have seen through the years, usually some bad stop-gap legislation. We saw laws put on the books in our country in the early '30s that were unquestionably bad. They did not help the public, the employee, or the employer. This was a period of reform through legislation, but looking back we can see that this law-making did not cure a bad situation. You just can't legislate away the nation's economic ills—then or now.

It would be impossible for me to attempt to go into the details of the social movement that this country passed through in the '30s. So I will confine my talk to the problems that I think aggravated the entire situation—the uncertainty and lack of stability of employment facing men and women working in industry—and its solution: the steady employment for these men and women. That is basic, you will agree, yet think how many of the economic ills could have been headed off if management had come to that point of view and done something about stabilizing employment years ago.

Importance of Steady Employment

Steady year-round employment is so right from the standpoint of the employer, so right from the standpoint of the worker, and so right for the country as a whole! And, taken on an annual basis, it is so economical in the operation of a business, that it is hard to see why we manufacturers have not made more progress in its application. I'm sure I know most of the answers that employers make. After all, I have been talking on this subject now for almost 20 years. And the gist of their remarks is always: "Somebody else might do it successfully but I can't." Ours is a highly competitive economic system, and I'm as sure as you are that is the right system. But the fact that our system is so competitive makes solution of this problem difficult—but doesn't mean that steady employment is out of the question; for there are too many types of industries that have been able to make a plan of steady year-round employment work successfully, and are well satisfied with their results. None of these firms, that I know of, would think of going back to the sporadic, up-and-down production of former years.

A number of surveys have been made in which workers have been asked what they wanted most in their jobs. In every one of them I have seen, men and women have answered: "First of all, we want steady employment." This is not surprising. Ask some questions of your friends in management, as I have. What if you didn't have any idea if you were going to work next week or not; or what your income would be next month? Wouldn't you be pretty jittery about the future? You certainly would be! You would be unable to plan your life even to buying clothes for your children and keeping them in school. There wouldn't be a bit of stability in your family life. Any man who is in that position is bound to be terribly disturbed, a prey to all sorts of economic "isms," and so worried he hasn't time to be a good citizen.

No Easy Solution

There is no one easy solution to this problem of stability. I believe it is management's problem and management's thinking that, by considering all factors, will decide how a business can be changed to provide for steady year-round employment. It's a basic down-to-the-roots-of-the-business decision and so must be made by management. **It can't be legislated** into action. The business must change its entire thinking so as to follow the consumption line of the product being produced, rather than the sales line, which is so frequently disturbed by the excitement of the seller and the buyer. Right here I would like to draw on Procter & Gamble history in making what I have in mind.

Over 25 years ago we found out that our soap products were consumed fairly evenly throughout the year. But our products were not purchased evenly, nor did we manufacture steadily. We decided that goods consumed evenly throughout the year could be produced evenly. It took some time to work out the solution, mainly because the sales department had to accept the premise of uniform production and really cooperate to make make the plan successful. (I know, for I was General Sales Manager at the time.)

It was costly at first, but William Cooper Procter, then our President, insisted on it because he felt that a steady job was the most important thing in every employee's life. That was way back in 1923 and the plan has been in operation ever since. Since that date, not a single employee who came under the Guaranteed Employment Plan has been laid off because of lack of work.

I am not saying that production can be exactly matched to consumption: but I do say, with commodities like ours, production can be set on a monthly or six-months' schedule to meet approximately the consumption demand; **and we have done it.**

Procter & Gamble Plan

Our plan, which has been in effect since 1923, is very simple in its concepts and administration. In effect we guarantee a worker forty-eight weeks' work in the calendar year, provided he wants to work and is willing to take any job that we can give him. The employee's pay is controlled by the rate which covers the specific job that he is working on. An employee is eligible for this plan after he has worked for the company two years; not when he comes in. In other words, there is a two-year probation period wherein the company can get acquainted with the man and the man with the company. If he is with us for that period, then he is assured 48 weeks' work in a given year, based upon the standard work week at whatever plant he is employed.

I think you can reason very quickly from this statement that our guarantee applied to approximately 70% plus of our employees. With the two years' service requirement and the very natural coming and going of workmen, we know about 70% of our force will be steady so that immediately our responsibility for steady jobs is limited to less than three-fourths of our employees. Fortunately for us, once the plan was established, we have been able to operate even through the depression and the war on a fairly even basis; so that not only those who were entitled to operate under the steady employment plan, but practically all the others have had regular work.

What I am saying is that if a manufacturer can get away from the sales curve and study the consumption curve of the commodity he makes, and can assure the workers steady jobs even though only 60%, 70% or 80% of them can be covered by his guarantee, the chances are that he will finally work around to the point where his plant is running steadily 48 to 52 weeks in the year.

In our own case, we have some problems now and then as we did a couple of months ago when the commodity markets broke sharply and the dealer and consumer shrank their purchases. For eight weeks we were compelled to carry larger inventories than we liked, but nevertheless we kept our production up. We knew that consumption was going on, and that it was just a matter of time until the inventory situation would be straightened out.

In one branch of our business, the crushing of cottonseed, we had a most serious problem because the amount of our available crushing material is entirely governed by the size of the cotton crop.

Ever since cottonseed has been produced for industrial purposes, it has been brought in from the farms to the cottonseed crushing mills, crushed, and the oil moved out during five or six fall and winter months. For this reason, the crushing mills were shut down for six months or so each year, and, of course, the employees were laid off. When we realized that, after all, the consumption of products made from that oil—shortening, for instance—went on regularly month after month with slight variations throughout the year, we felt that here, too, something could be done to regulate production to that consumption line. The answer was found in different storage and handling of the seed. Today, our 16 crushing mills in the South run from 10

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*An address by Mr. Deupree at 26th Annual Dinner of the Bureau of Advertising, American Newspaper Publishers Association, New York City, April 22, 1948.

The Crop Outlook

By ROGER W. BABSON

Mr. Babson foresees bumper crops this year with farm prices well maintained. Says domestic demand will continue large and farmers should prove good spender this year.

American farmers last year grossed some thirty billion dollars—the peak in a series of phenomenally prosperous years. Will their good luck hold out in 1948?

Planting Intentions Good

This year's toboggan in farm prices, which later managed a good recovery, failed to uproot the confidence of farmers in the soundness of current economic conditions in this country. They are getting set to reap another golden harvest, if their March planting intentions may be taken as a criterion. According to the official government report, farmers expect to plant a larger total acreage of principal crops this year than in any of the past three seasons.

Roger Babson

What will be the final results of these good intentions I do not profess to know. Much depends upon climatic conditions in the weeks ahead. They have been generally favorable thus far, although the South has had a little too much rain. Since about as many persons were at work on farms on March 1, this year as last, the labor problem should not prove too difficult. Supplies of farm machinery and fertilizer are more plentiful and any other factors should not seriously interfere with farm operations.

Bumper Crops Possible

Planting intentions are one thing; final yields another. The promised far-flung fields of waving wheat and ripening corn are not yet garnered into elevators and cribs. Nevertheless, on the basis of average yields, some interesting results are possible. Production of all wheat, for instance, could reach 1,110,000,000 bushels, compared with last year's record of 1,364,919,000 bushels and the 10-year average of 890,306,000 bushels. That would be a lot of wheat by any standard. Corn could chalk up a total of around 3,000,000,000 bushels—well above the 10-year average and last year's short crop of 2,400,952,000 bushels. The oats outturn could ring the bell at 1 376,000,000 bushels, which would be 13% above the 1947 crop and 11% above the 10-year average.

The major uncertain factor in the over-all crop production outlook this year, as always, is weather. Since I am no weather prophet, I cannot speak authoritatively on that subject. I do know, however, that the wrong kind of weather during the critical growing periods can quickly change a bright crop picture into an extremely dismal affair. I believe it is more important this year than usual for all buyers and sellers of farm commodities to keep a watchful eye on weather conditions from now on. They may well be the clue to profitable timing of purchases or sales of farm products in the months ahead.

What About Prices?

Can farmers this year reasonably expect to get good prices for their wheat corn and other crops? Here, again, uncertainty enters the picture. It does seem to me, however, if present crop indications are borne out, especially as regards wheat, that agricultural prices in general are likely to move still lower, despite any intermediate upturns that may result from crop scares or other temporary factors.

Do not forget that European crops are reported to be making generally favorable progress. Good crops in Europe this year would materially lessen dependence upon imports of American grain and other foodstuffs. Should some untoward event precipitate war with Russia next year, exports of grains and food products to Europe could largely cease. Lessened foreign demand would put some downward pressure on U. S. farm prices.

Another Good Farm Year

Nevertheless, I do not expect the bottom to fall out, whatever happens. Domestic demand will continue unusually large, since employment and wages should hold at high levels. In any event, the government is committed to support agricultural prices at 90% of parity—a level that would assure farmers a fair return for their work and products.

All in all, the odds, in my opinion, favor another good year for American farmers in 1948. Although they are tightening their purse strings a bit at present, they should prove good but wise spenders when 1948 crops are in. Merchants should prepare now to make the most of profitable farm markets.

Phila. Securities Ass'n Committee Annual Outing June 18

Dudley R. Atherton, Jr., of F. S Moseley & Co., President of the Philadelphia Securities Association, announced the appointment of Association Committees for 1948-49 as follows:

Arrangements Committee—Franklin L. Lord, Jr., E. W. Clark & Co., Chairman; William G Crowell, Girard Trust Co.; Russell M. Ergood, Jr., Stroud & Co., Inc. L. W. Fisher, Paul & Co.; John D Foster, Real Estate Trust Co. Walter W. Hongler, Brooke. Stokes & Co.; William A. Lacock E. W. Clark & Co.; John F. Macomber, First Boston Corp.; and Harry C. Selheimer, Corn Exchange National Bank and Trust Co.

Educational Committee—Henry Ecroyd, Provident Trust Co. of Philadelphia, Chairman; Harold F. Carter, Hornblower & Weeks James J. Mickley, Corn Exchange National Bank & Trust Co.; and Osborne R. Roberts, Schmidt, Poole & Co.

Membership Committee — Paul W. Bodine, Drexel & Co., Chairman; Clinton D. Lowden, F. P. Ristine & Co.; and William E. Slack, Bioren & Co.

Speakers' Committee—William B. Ingersoll, Stroud & Co., Inc., Chairman; William E. Coale, Eastman, Dillon & Co.; George J. Ourbacker, Kalb, Voorhis & Co.; and C. Carroll Seward, Wurts, Dulles & Co.

The Association will hold its annual outing at Llanerch Country Club, Llanerch, Pa., on June 18.

John D. Foster, Trust Investment Officer, Real Estate Trust Company, was elected to the Board of Governors of the Association, at a recent meeting of the Board.

Nat'l Ass'n of Securities Administrators To Hold Convention; Committee Changes

LINCOLN, NEB.—The 1948 Annual Convention of the National Association of Securities Administrators will be held in Portland, Ore., July 19 through July 22 at the Hotel Multnomah.

The general plans are to have two full days of business, one day devoted to a beach trip and one day devoted to a trip to Timberline Lodge. This should give a well-rounded program of education and recreation.

Securities administrators from over 30 states have indicated their intentions to attend this meeting at Portland, Ore. These administrators have indicated that there will be in excess of 80 persons—either from their families or offices, attending this important meeting. We are looking forward to a splendid attendance from the industry also.

The hotel has advised that those attending may register at the hotel on Sunday, July 18 if desired. Sunday arrivals are recommended, if possible, so that official meetings may start during the morning hour of Monday, July 19.

Officers

At the executive committee meeting of the National Association of Securities Administrators held in Chicago on March 30 and 31, the committee accepted the resignation of John P. Powers of New York as First Vice-President. Maurice Hudson was named First Vice-President, James F. Merkel Second Vice-President and Edward J. Samp, Secretary. The up-to-date list of the officers is as follows:

Harold Johnson, President, Nebraska; Maurice Hudson, First Vice-President, Oregon; James F. Merkel, Second Vice-President, Ohio; Edward J. Samp, Secretary, Wisconsin; J. A. Graham, Treasurer, North Dakota.

Executive Committee

Due to these changes of officers there likewise has been a change in the Executive Committee, which now is as follows:

Harold Johnson, President (Ex-Officio), Nebraska; Maurice Hudson, First Vice-President (Ex-Officio), Oregon; James F. Merkel, Second Vice-President (Ex-Officio), Ohio; Edward J. Samp, Secretary (Ex-Officio), Wisconsin; J. A. Graham, Treasurer (Ex-Officio), North Dakota; D. D. Murphy, South Carolina; Clarence H. Adams, Connecticut, Milton B. Cope, Oklahoma.

Issuers and Dealers Committee

On March 22 an Issuers and Dealers Committee was created and the members appointed. Since Edward J. Samp was appointed Secretary of the Association it was his wish to be removed as a member of this committee, due to the increase of burden in carrying on the duties of the Secretary. Joseph Glennon of Iowa has been named to this committee, which is as follows:

Theodore N. Ofstedahl, Chairman, Minnesota; Joseph Glennon, Iowa; John F. Hueni, Michigan.

It has been considered by the Executive Committee that certain changes should be made in the constitution of the Association so as to better carry on the functions of our organization. The following have been appointed to carry out this work: Edward J. Samp, Chairman, Wisconsin; Clarence H. Adams, Vice-Chairman, Connecticut; Hal G. Hoyt, Maine; Heber Ladner, Mississippi; Simon M. Sheldon, New Hampshire.

This committee will consider and draft proposed changes which will be submitted to the membership prior to the convention.

Unterberg a Director

Clarence E. Unterberg, senior partner of the investment firm of C. E. Unterberg & Co. has been elected a director of Pacific Airmotive Corporation of Burbank, California. He is a director of Stern & Stern Textiles, Inc., and also serves on the board of several other corporations. Mr. Unterberg was formerly President of the New York Security Dealers Association.

C. E. Unterberg

Harris, Hall Elects

CHICAGO, ILL.—The board of directors of Harris, Hall & Company, 111 West Monroe Street, has elected C. Longford Felske Assistant Vice-President and Edmund L. Heinemann Assistant Secretary of the company, Edward B. Hall, President, announced. Both Mr. Felske and Mr. Heinemann are in the company's corporate buying division.

Canadian Securities

By WILLIAM J. McKAY

The California gold rush constituted a notable milestone in the pioneer period of U. S. economic development. Similarly the Canadian gold discoveries brought to light Canada's fabulous Pre-Cambrian Shield, and thus gave birth to the Dominion's great mining and forestry industries.

Now it would appear that U. S. history will again be repeated north of the border with comparable results. Just as the discovery of the spectacular oil and iron deposits in this country marked the commencement of its greatest era of economic development, it now appears that Canadian oil, base-metals, and iron will play a similar role in the next stage of Canadian development. In view of the growing shortages of these vital commodities south of the border both U. S. and Canadian efforts will be directed towards the early realization of current plans for the accelerated exploitation of Alberta oil, the base-metal deposits of the North West Territories, and Quebec/Labrador iron.

Recent events point clearly to this conclusion. The largest deal in the oil history of Alberta oil has just been completed between the Socony-Vacuum Exploration Company and the Canadian Pacific Railway Company, as a result of which another 1,800,000 acres of potential oil country will be extensively explored this summer. This is only one of many similar transactions and now all the major U. S. oil interests are energetically engaged in the search for the vast Canadian oil-pool, which geological experts insist, will one day be found in the Central Plains of Western Canada.

The geological structure of this area which extends continuously from the U. S. border to the Arctic Ocean, forms part of the same structure in which all the great oil pools of this country have been found. In the past drilling activity in this belt has produced comparatively minor results such as the Turner Valley, Lloydminster, the Princess Area, and Taber fields. Recently however the discovery of the highly promising Leduc pool has encouraged intensified efforts to place Western Canada in the ranks of the leading oil-producing areas of the world.

Such a development in itself would have a revolutionary effect on the Canadian economy as at the present time the Dominion is obliged to import 90% of its current oil requirements. Consequently in the event of Canada becoming an important exporter of oil the current problem of U. S dollar shortage would be immeasurably simplified. Also with the growing appreciation of the possibilities of Canada as a potential major oil-producer, U. S. and other foreign investment funds are now flowing into Canadian oil channels with a resultant beneficial effect on the Canadian free dollar.

The trend away from gold is marked not only by the recently accentuated interest in oil, but also by the current activity of Canadian mining companies in prospecting for new sources of base-metals. There is little doubt in view of the tremendous possibilities of the Canadian Pre-Cambrian Shield that these efforts will also be rewarded with success on a scale that is likely to introduce an era of unprecedented Canadian prosperity.

During the week external bonds continued in demand but activity was restricted by the dearth of supply. In sympathy with the persistent strength of free funds the recently improved tone of the internals was also well maintained.

The stock market trend likewise was upwards, led by Canadian Pacifics, Western oils, and the base-metals. The golds however continued in the doldrums and it would apepar that only news of a highly favorable character can move this section from its present rut.

Benjamin Grody Forms Owns Investment Firm

Benjamin Grody announces the formation of Benjamin Grody Company with offices at 40 Exchange Place, to deal in investment securities.


Benjamin Grody

Mr. Grody has specialized in unlisted securities for many years and was formerly associated with Herzog & Co. and Josephthal & Co.

The firm's telephone number is DIgby 4-3280.

Montreal and Toronto Exchanges to Close Sats.

The Montreal Stock Exchange and Curb Market will resume Saturday closing on May 22. The Toronto Stock Exchange likewise will discontinue Saturday sessions May 22 until further notice. From the Montreal "Gazette" we quote:

"As the following Monday is a holiday, Victoria Day, this means that the markets will enjoy a long week-end, from Friday night until Tuesday morning. Markets in both cities resumed Saturday trading on February 7 after operating on a five-day basis for about four years."

N. Y. Savings Banks Deposits Continue Gain

Despite continuing high living costs, the people of the State mustered $144,399,519 to add to their savings deposits during the first quarter of 1948, it was reported today by John Adikes, President of the Savings Banks Association. Total savings deposits now held by the 131 mutual savings banks of the State total $9,959,002,091.


John Adikes

Savings during the first quarter of 1948, although less than the $170 million recorded in the first quarter of 1947, have continued to gain to a greater extent than anticipated and deposit activity, measured in terms of gross deposits, was $34 million greater than last year. The increase in take-home pay, which becomes effective May 1 as a result of the tax reduction voted by Congress, should make it easier for the public to add small portions regularly to their savings deposits. Many savings banks are urging that this reduction in taxes be continued through payroll savings and added to savings bonds or savings deposits as another way to combat inflation.

Accounts Also on Increase

Accounts during this first quarter of 1948 increased by 64,935, bringing the total accounts held by savings banks to 7,168,721, or one for every two people in the State.

March Establishes Continuing Gain

For the 68th consecutive month, a gain—$43,467,815—was reported for March. It compares to a gain of $51,242,753 in March a year ago. Accounts in the savings bank of the State increased by 16,050 as against 17,897 last year.

Savings Bonds Sales on Increase

Sales of United States savings bonds and stamps, totaling $4[illegible] million and exceeding redemptions by $23 million, were made by the 131 savings banks of New York State during the first three months of this year. Total savings bonds sold since the inception of the United States savings bond program in 1941 aggregate $1.5 billion, approximately 86% of which is represented by E bond sales.

Sees ERP Maintaining Corporate Earnings

Bache & Co. hold it is basis for higher stock prices, and point out most attractive securities which should be bought for market rise.

In a market letter of April 22, Bache & Co., members of the New York Stock Exchange, point out the stabilizing effect of American foreign aid on domestic business and the stock market. According to the letter, prepared by the Research Department of Bache & Co.:

"It is the popular belief that exports under the Economic Cooperation Administration (Marshall Plan) will reach an unprecedented high. Actually, estimates indicate that the ECA will for the most part, merely replace other earlier forms of U. S. loans and grants and that exports in 1948 may approximate those of 1947. This, however, is in sharp contrast to what might have happened had Congress failed to authorize the funds for foreign aid. With most countries scraping the bottom in their dollar holdings, our foreign trade this year might have suffered a precipitous decline.

"Does the fact that we are only to maintain the status quo in exports mean that the ECA is of little significance to business and the stock market? Quite the contrary!

"An outstanding feature of the stock market today is the low prices relative to earnings at which most stocks are selling. Whereas it was for many years considered the normal rule-of-thumb for a stock to sell ten times per share earnings, today it is by no means unusual for a stock to sell five times earnings or even less. The indefinite continuation of such a situation is unlikely and it is reasonable to assume that either earnings will decline to a level at which present stock prices are warranted or that stock prices will advance so as to be more in keeping with the present rate of earnings. The ECA may prove to be an important factor in maintaining earnings of many business enterprises.

Principal Direct Beneficiaries

"The distribution of the ECA funds among the various commodities and manufactured goods is subject to the discretion of the Administrator, Mr. Paul Hoffman and thus far, allocations have been suggested on only a broad and tentative basis. Furthermore European countries will be encouraged to make part of their purchases outside of the U. S. particularly of agricultural commodities and other raw materials Latin America and Canada, where most of these funds will be spent will then be in a position to increase their own purchases in the United States.

"Stocks of companies producing capital goods appear to be in the best position to benefit directly from ECA purchases. These include manufacturers of farm electrical, coal and other mining machinery, steel mill equipment and general industrial machinery. The need for power generation and petroleum equipment as well as for trucks and freight cars also is great. An urgent demand for both raw steel and semi-finished steel products exists, but shipments abroad will have to be limited by productive capacity since huge quantities of steel and of non-ferrous metals will be consumed by American industry.

"Although two-thirds of the ECA funds are designated for the purchase of agricultural products, demands on the U. S. itself may not be as pressing as in the case of manufactured goods where there is no other major supplier at present. Nevertheless, the shares of some American concerns with foreign properties may benefit from these purchases made abroad.

"Petroleum shipments from American-controlled properties in Latin America and the Middle East will be stepped up as much as possible. Sugar will be purchased in Cuba, meat in Canada and Argentina. Nitrogen fertilizer will be obtained largely from Chile, but phosphate fertilizer will come from the U. S. Tobacco shipments from the U. S. which have been sharply curtailed by the inability of the British to buy, may be expanded. Cotton exports may depend in part on political pressures at home and on arrangements for deliveries to the Far East as well as for ECA. The present outlook is that cotton exports will be substantial.

Stabilizing Factors

"It now appears that total foreign expenditures for food in the U. S. may be lower than in 1947, although there may be an increase in exports of dairy products and of some fruits and vegetables. Better crops in Europe and other sections of the world could permit an easing of wheat export shipments. More plentiful domestic supplies of this important cereal might limit a further price advance and since wheat has, until recently, been the bellwether in the inflationary price trend, a steady price for wheat might prove to be a stabilizing influence on the entire economy.

"The ECA Administrator has announced that it is his policy so to distribute purchases in this country as to prevent foreign buyers from bidding up the prices of American goods. It is hoped that he will be successful in this arduous task since industry will be called upon to meet the combined requirements of consumer demand at home, an expanding armament program and the ECA. If industry proves unable to meet this burden, it will be reflected in scarcities and advancing prices. Such a development would probably bring with it renewed pressure for price restrictions, allocations and other forms of government control. Investors should be alert to watch for such a possibility, but in the interim, prices for some stocks may reflect a continued high rate of corporate sales and earnings.

Which Stocks to Buy

"It is to be emphasized that the most attractive stocks are not necessarily confined to the industries mentioned as benefiting most directly from the ECA. Numerous collateral industries such as the railroads which must furnish the necessary land transportation stand to gain from a high rate of industrial activity. As a matter of fact, some forward-looking investors favor particularly railroad securities, particularly railroad bonds, because they might be among the least affected by further government controls, possibly including an excess profits tax.

"More specifically, among the early beneficiaries of the ECA spending, we are likely to find the machinery and other capital goods companies. Representative issues in these groups are listed.

"It may be expected that different industrial groups and individual companies will fare differently in the changing economy that is ahead. Both investment and trading accounts should be examined with a view to making advantageous switches."

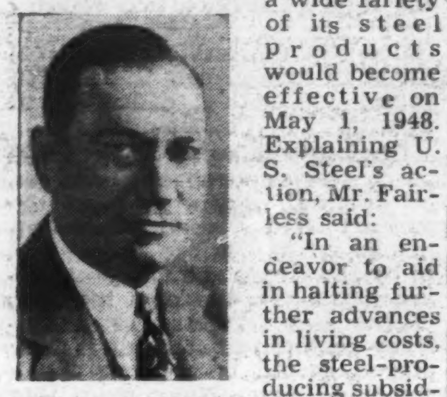
Group—Company	Approximate Price, 4-21-48	Earnings, 1947 Fiscal Year	Indicated Dividend
Agricultural Equipment—			
International Harvester	93	$10.07	$5.00
Oliver Corp.	28¼	4.31	1.00
Machinery—			
Bucyrus-Erie	21	3.81	1.50
Caterpillar Tractor	62½	5.29	3.00
Chicago Pneumatic Tool	33⅝	10.41	3.50
Cooper-Bessemer	25½	7.55	1.00
Elliott Company	20¾	3.99	1.00
Fairbanks-Morse	47	7.05	2.50
Foster Wheeler	32	3.30	1.00
Ingersoll-Rand*	137	16.07	9.00
Joy Manufacturing	38½	8.52	2.40
Railroad Equipment—			
American Brake Shoe	39⅞	4.11	1.60
National Malleable & Steel Castings	20¼	1.11	0.60

*Stockholders vote April 27 on a proposed 3-for-1 split-up.

U. S. Steel Denies Demand for Wage Increase And Will Cut Prices Instead

Fairless, President of U. S. Steel, announced cut in steel prices, effective May 1, aggregating $25 million a year, as measure to halt further advances in living costs. Says cuts will be largely confined to products directly entering living costs.

Benjamin F. Fairless, President of United States Steel Corporation, announced on April 22 that the substantial wage increase asked for by the United Steelworkers of America (CIO) had been denied by U. S. Steel and at the same time disclosed that reduced prices for a wide fariety of its steel products would become effective on May 1, 1948. Explaining U. S. Steel's action, Mr. Fairless said:



Benjamin F. Fairless

"In an endeavor to aid in halting further advances in living costs, the steel-producing subsidiaries of United States Steel Corporation shortly will announce decreases, effective May 1, 1948, in their prices for a wide variety of steel products of their manufacture.

"These price changes are estimated to add up to a total price reduction by U. S. Steel of about $25,000,000 a year based on last year's shipments of the products affected. The price reduction will vary in amount for different products. No changes are to be made in the prices of certain products, such as semi-finished steel, where the relationship between present prices and costs does not permit a price reduction at this time. The new changes involve a total price reduction more than twice as large in amount as the total increases last February in our prices for semi-finished steel.

"So far as possible, the price reductions will be made applicable to steel products which have a more or less direct bearing upon the cost of living. As illustrations, lower prices will be applicable to a number of steel products which are bought by the consumer in the form in which they are manufactured by our subsidiaries, such as nails; wire fence; wire netting; steel fence posts; steel roofing and siding sheets for buildings; barbed wire and other wire products; and also to a number of steel products which are converted by our customers into articles for ordinary use by homeowners, such as tin plate for the manufacture of cans; cold rolled strip and sheets for automobiles; stainless steel for refrigerators, stoves, kitchen cabinets, washing machines, etc.; sheets for furnaces, air-conditioning ducts, and heating equipment; galvanized sheets for silos, grain bins and other farm structures; spring wire for furniture and other uses; as well as many other steel products.

"We, in United States Steel believe that costs and prices in general are too high today for the good of the nation. We are firmly of the conviction that American industry and labor should cooperatively do everything in their power to avoid further increases in costs, which, if permitted to occur, must result in higher prices for almost everything we buy. Certainly the best interests of all of our people will not be served by a further lowering in the purchasing power of the dollar.

"We are hopeful that our action in reducing the prices of a number of steel products associated with the cost of living may have a beneficial effect throughout the nation and may be helpful in bringing about an early stabilization or reduction in the cost of living. To achieve this worthy result, there must be cooperation by both business and labor and the government. If this should prove to be the outcome, everyone in this country will benefit. If, on the contrary, costs should continue to advance, then in fairness to our employees and to our stockholders we will have to consider at some later date the adequacy of both wages and steel prices under then existing conditions.

"Over the past few weeks our steel-producing subsidiaries have been engaged in negotiations with the United Steelworkers of America (CIO) in connection with the request of the Union for a substantial wage increase. We have told Mr. Philip Murray, the President of the Union, that in our judgment the granting by us of such a wage increase will not in the long run bring benefit to anyone, as it will lead to similar substantial wage increases in other industries and to higher prices generally. The reply which we gave yesterday to Mr. Murray was that, in the light of this conviction we cannot grant his request for a substantial wage increase to our steel workers, as such an increase would make necessary a general advance in our steel prices. We are unwilling so to increase steel prices at this time, as we believe this would be inimicable to the best interest of the nation.

"While increases in our prices for certain steel products have been announced from time to time since Aug. 1, 1947, our costs have gone up to a greater extent with the result that the earnings statement of United States Steel for the first quarter of 1948 to be released next week will show a lower profit for the first quarter of this year than for the first quarter of 1947.

"In an endeavor to do what is within our power to assist in halting the upward trend of costs and prices, we have adopted the course which I have outlined. We have not been content just to sit by inactive and hope. We have concluded that definite action on our part is advisable in the way of steel price reductions over a broad field.

"Average straight-time hourly earnings of our steel workers were 83.9 cents in 1940. In February 1948, their average straight-time hourly earnings were $1.454, an increase of 73.3% over those in 1940. Their actual average hourly earnings were $1.55 in February 1948, as compared with 85.5 cents in 1940, an advance of 81.3% since 1940. Actual average weekly earnings of our steel workers advanced 91.7% between 1940 and February 1948, namely, from $31.38 to $60.14 a week. These advances in average straight-time and actual hourly earnings and in actual average weekly earnings between 1940 and February 1948 are substantially in excess of the increase in the cost of living during that period. The index of the Bureau of Labor Statistics of the U. S. Department of Labor records an increase of 67.2% in the cost of living between 1940 and February 1948.

"According to the Bureau of Labor Statistics hourly wages in the steel industry at the end of 1947 were 19% higher than in all manufacturing industries, 12% higher than in all durable goods industries, and 27% higher than in all non-durable goods industries."

Swift & Co. Debentures Placed on Market

Public offering of $35,000,000 of debentures of Swift & Co., the nation's largest meat packer, was made April 28 by Salomon Bros. & Hutzler, as selling agents. The offering consists of $25,000,000 25-year 2⅞% debentures, due May 1, 1973, and $10,000,000 serial debentures of 1948. The latter mature $1,000,000 each May 1 from 1949 to 1958, inclusive, and bear interest rates ranging from 1.45% for the May 1, 1949 maturity to 2.55% for the final maturity in 1958. The 25-year debentures and the serial debentures—all maturities—are priced at 100% and accrued interest.

Proceeds from the financing will be used by Swift & Co. for plant improvements and additions, and for working capital.

In addition to the debentures presently being offered, the capitalization of the company on April 1, 1948 consisted of $35,000,000 2⅝% debentures due 1972, $13,500,000 serial debentures bearing interest rates ranging from 1.20% to 1.90% and due Jan. 1, 1949 to Jan. 1, 1957, inclusive, and $5,922,196 shares of capital stock of a par value of $25 per share. Notes payable, seasonal in character, and which are expected to be retired within the next 40 days through liquidation of inventories, amounted to $41,345,000 on April 22, last.

Net sales in the fiscal year ended Nov. 1, 1947 totaled $2,248,766,634 compared with $1,304,767,802 during the preceding fiscal year. Net income for the 1947 period amounted to $34,539,771 (before deducting an appropriation for high cost additions to fixed assets in the amount of $12,000,000). Net income in the 1946 fiscal year was $16,217,344.

The term debentures due in 1973 will have the benefit of sinking fund under which the company must pay into the sinking fund prior to May 1, 1959 and annually thereafter, a sum in cash of not less than $1,250,000 and not more than $1,750,000.

For other than sinking fund purposes the term debentures due in 1973 are redeemable at 103 if redeemed prior to May 1, 1949 and if redeemed thereafter and prior to May 1, 1972 at 103 less ⅛ of 1% for each 12 months' period elapsed at the date of redemption subsequent to April 30, 1948. The serial debentures of 1948 are subject to redemption at any time at par and accrued interest.

Says Controls Would Impair Heat Oil Supply

S. B. Eckert, Vice-President of Sun Oil Co., holds abritrary or company control can only cause hardship to some consumer groups. Says greater use of natural gas is solution of fuel oil shortage problem.

Sufficient furnace oil to supply the rapidly increasing number of household burners can be produced only by a price which fully reflects the strength of consumer preference for this product as against demands for gasoline, Samuel B. Eckert, Vice-President of Sun Oil Co. in charge of marketing, said at Philadelphia on April 22.

Samuel B. Eckert

The quantities of furnace oil and gasoline produced from crude petroleum are determined by the differential in prices between the two products, which in turn reflect consumer demand in relationship to available supply, Mr. Eckert said. He explained that only recently has a price parity between the two products been reached, and widening this differential, either by reducing furnace oil prices or increasing gasoline prices, can result only in discouraging furnace oil production to the detriment of household users.

An increase in the production of one of these products necessarily results in a decrease in production of the other, he pointed out.

Mr. Eckert's remarks were made in connection with the issuance of a statement commenting on recent proposals for control over the use to which the public puts the products of the petroleum industry.

His statement follows:

"The disturbing idea that either government or industry should dictate to the public the end-use of industry's products has emerged as a proposed solution to present oil supply problems.

"Recent newspaper and trade magazine reports give a striking example in the campaign that has been launched to obtain a Number 1 priority on petroleum supplies for household users of furnace oil.

"Another example is the opposite suggestion that the use of fuel oil for heating purposes be discontinued, or that steel deliveries to oil burner manufacturers be curtailed.

"Such denial of the public's freedom of choice in the purchase and use of commodities represents a dangerous departure from democratic principles. Moreover, it threatens the destruction of economic balances which over the years have provided the largest number of people the greatest supply of the most desired goods and services.

"These balances have been achieved through the influence of prices which are sensitive to consumer needs and preferences. The relationship between production of gasoline and furnace oil, for example, is particularly responsive to price variations since both products are produced from the same raw material. In recent years furnace oil has become a lively competitor of gasoline for a large share of the crude oil barrel. Under such circumstances, maximum production of furnace oil can be achieved only when its price equals the price of gasoline, less the cost of converting the furnace oil into gasoline.

"Substitution of arbitrary or compulsory end-use control for price as the regulator of production can result only in disfranchising large consumer groups. Either 36,000,000 motor vehicle owners suffer for the benefit of 3,600,000 owners of oil burners, or vice versa, and each in the injured group loses the voice his purchasing dollar gives him.

"Only in cases where free public choice has been supplanted by arbitrary controls, either by government or industry, have our resources failed to be developed to meet the public need.

"Unfortunately, the most outstanding illustration of this truth is the case of natural gas, which in large part holds the immediate solution to fuel shortages in the United States. Although natural gas reserves exceed crude oil reserves in heat value, natural gas is supplying only 13% of the nation's energy requirements, while petroleum is supplying more than one-third."

Is Britain's Surplus Deflationary?

By PAUL EINZIG

Contending it is politically and economically impossible for the present Labor Government of Britain to pursue at present a policy of monetary deflation, Dr. Einzig points out proposed budget surplus of £300 million will not be deflationary, and full employment and present price levels will remain.

LONDON, ENGLAND—Sir Stafford Cripps received much praise for his budget in quarters which seldom have a good word to say for anything done by the Labor Government. He was congratulated on his budget surplus by a number of anti-Socialist writers and politicians who welcomed the surplus on the ground that it would tend to result in much-needed deflation. Beyond doubt, in a negative sense, these supporters of Sir Stafford Cripps' Budget are right. Had he distributed the surplus in the form of tax concessions the additional purchasing power thus created would have tended to cause a further rise in prices and a depletion of the supplies of goods the prices of which are controlled. In this sense, the Budget is non-inflationary, in that it neutralizes potential purchasing power. It prevents an increase of inflation. It is entirely wrong, however, to believe that the surplus will tend to reduce the existing inflation.

Dr. Paul Einzig

Those who believe that the surplus of £300,000,000 means a reduction in the volume of spending power by that amount seem to be thinking in terms of conditions that prevailed between the two wars; they are mentally equipped to win the last peace, not this one. In the meantime the situation has altered fundamentally in two respects: (1) Britain has adopted a policy of full employment under which lack of financial resources must never hinder production. (2) Thanks to this policy, and to the victory of the Labor Party at the last general election, the trades unions have now sufficient economic and political power to prevent a deflation of wages.

Until comparatively recently, a Budget surplus would have reduced the volume of credit available for producers. As a result, employers would have been forced to dismiss a number of employees, and the reduction of the purchasing power of the latter would have tended to produce a deflationary effect on the prices of consumers' goods. What is even more important, the existence of a certain degree of unemployment brought about by the deflationary effect of the Budget surplus would have induced workers to accept lower wages. All this is a matter of the past as far as Britain is concerned. Under a policy of full employment the monetary authorities would take steps to reverse a deflationary trend as soon as it threatens to curtail production and thereby to lead to unemployment. If the volume of financial resources should become inadequate through the deflationary effect of a Budget surplus, then the Treasury, having brought about this deflation, would immediately reflate in order to keep industry going to the limit of its physical capacity. It would have to replace by means of credit expansion or subsidies the money withdrawn by means of Budgetary deflation.

Nor could in any case a moderate degree of unemployment result in any substantial reductions of wages. As far as organized labor is concerned this is out of the question. The trades unions would not stand for it. And they have sufficient influence on the Socialist Government to induce the latter to reverse a deflationary trend as soon as the competition of unemployed unorganized labor threatened to lower the general level of wages.

In the circumstances it is clearly unjustified to regard the Budget surplus as deflationary in practice. Indeed it is politically and economically impossible for the government to pursue at present a policy of Budgetary or monetary deflation. Politically it is wedded to the policy of full employment. Economically, any deflation achieved at the cost of creating unemployment would tend to defeat its object. Before the war the reduction of spending power through the creation of unemployment was able to cause prices to fall, because there were ample stocks of goods available, so that the reduction of supplies through the curtailment of production did not result in a scarcity of goods. Since the war, however, Britain has been living from hand to mouth. Supplies of goods in most lines are very small, and even a moderate decline of the output through a deflationary unemployment would make an appreciable difference to the volume of consumers' goods available. This means that, simultaneously with the reduction of purchasing power, deflation would also reduce the volume of purchasable goods. Indeed, since under the increased social service benefits the purchasing power of unemployed in Britain is maintained at a relatively high level, the chances are that Budgetary or monetary deflation, so far from causing a fall in prices, might even cause a rise, owing to the depletion of the already scant supplies.

Orthodox economists appear to have failed to realize this change. They have failed to adapt their textbook wisdom to the changed situation. They still swear by the theory that a Budget surplus is deflationary, even though in conditions prevailing in present-day Britain it does not operate. In a negative sense, they are right. For if the surplus had been released the rise in prices caused by the additional demand would have led to higher wages. But in a positive sense they are hopelessly wrong. For the retention of the surplus could not at present lead to a reduction of wages, and therefore it could not lead to a fall of prices.

Curb Quarter Century Club Adds New Members

Louis R. Burgers, President of the New York Curb Exchange Employees Quarter Century Club, announced the addition of five new members to the club.

Wilmont H. Goodrich, director of the exchange building department and a former Vice-President of the Curb Exchange Realty Associates, yesterday was presented with a pin signifying club membership by Francis Adams Truslow, President of the exchange.

The other four new members, all on the staff of the Curb Clearing Corporation, received their pins from Fred C. Moffatt, President of the corporation. They are George J. Cruse, Controller; James J. Cross, third teller; Francis P. Stapleton, Manager of the non-member delivery department; and Charles A. Taylor, first teller.

All five new members are residents of Brooklyn.

Italy Eases Remittances On Foreign-Owned Investments

The Italian Government has approved a new decree which liberalizes the regulations affecting foreign investments in Italy and permits freer remittance abroad of dividends and capital earned by such investments, the Department of Commerce said on April 23, through its Office of International Trade.

The new decree, which had been the subject of prolonged discussion, became law on the day after its publication in the "Gazzetta Ufficiale," April 7, 1948. Its effects to abrogate the 1942 law which made all foreign investment subject to government authorization.

Under the decree, foreigners and Italian citizens residing abroad are permitted to receive certain proceeds of foreign capital invested in Italy after April 8, 1948, provided that the original investment was made in the form of foreign exchange or freely transferable currency which was ceded to the Italian Exchange Office. Any such investment proceeds must be transferred through the Italian Exchange Office, the Bank of Italy, or any Italian bank authorized to deal in foreign exchange.

Foreign exchange remittances under the decree may be made on income, interest, or profits from investment in real estate or loans as well as dividends and interest on investments in shares of stock and bonds acquired or subscribed to in Italy. Transfers of exchange resulting from such investments may not exceed 1% in excess of the annual Italian legal interest rate.

Remittances may also be made against capital proceeds from the sale or liquidation of Italian holdings. In such cases, the remittances are limited to the amount of foreign currency originally invested in Italy. No remittances are permitted for two years after the date of investment, and not more than 50% of the invested amount may be withdrawn in a given two-year period. Amounts not admissable for withdrawal may be reinvested or utilized in some other fashion, according to the provisions of Italian foreign exchange regulations.

Foreign investment in Italy may take the form of capital goods (industrial machinery and plant equipment shipped to Italy), provided that not more than half of the total amount invested by any person lies in such installations In these instances, the investment in so far as the machinery is concerned is subject to specific authorization of the appropriate Ministry of the Italian Government The transfer abroad of the capital which is equivalent to the foreign exchange or currency invested in machinery and equipment may not be permitted until five years have elapsed from the time of the original investment.

Buckeye Pipeline Debs. Placed Privately

The Buckeye Pipe Line Co. has announced that it has negotiated through Kuhn, Loeb & Co. the sale of $6,000,000 of its 15-year 3⅛% sinking fund debentures to two insurance companies. New York Life Insurance Co. has purchased $5,000,000 and the Provident Mutual Life Insurance Co. of Philadelphia $1,000,000 of these debentures.

A semi-annual sinking fund, designed to retire the issue by maturity, will commence on April 1, 1952. The proceeds are to be used to finance the construction of a 22-inch pipe line between Lima and Toledo, Ohio, and a 12-inch pipe line between Cygnet and Cleveland, Ohio.

Is the Army Really Thinking?

By PHILIP HARDING JORDAN

Writer holds difficulty in getting voluntary enlistments in army is due to rivalry and conflicts of the different armed services. Suggests this psychology can be changed by abandoning Army-Navy football games, and having an Army-Navy combined team.

If the Army would be honest enough to accept the fact that the American people do not want peacetime conscription and that all the newspaper propaganda in the world will not change their view, they might get somewhere in forming the kind of service this country really needs.

Philip H. Jordan

It has been reported in the newspapers that the Secretary of the Air Force told the House Armed Services Committee that the Air Force can get all the volunteers it requires. The Secretary of the Navy also stated that the Navy could depend entirely on volunteers. It is about time, therefore, that the Army falls into line by improving its recruiting methods and the treatment of the men while in the service.

Another aspect of the matter is dealt with in Mr. Stimson's recently published autobiography. The former Secretary of War devotes some space to the conflict which existed between the Army and Navy air force in 1942 and early 1943 and seriously hampered our U-Boat defences. We are also familiar with the inter-service conflict that existed at the time of the Pearl Harbor attack.

A great deal of talk and some action has taken place in trying to remedy this situation but it seems to me that one fundamental aspect has never been touched. I refer to the fierce and damaging rivalry that has long existed between West Point and the Naval Academy. It is here, in these crucibles of learning, that the basic antagonism between the two services is not only instilled but fostered by some of the very highest officers in the service. Their attitude in turn effects that of the young graduating officers and eventually that of the men.

Obviously this psychology must be changed, and obviously it can be changed. Each year on the football field a kind of mental and physical warfare is engaged in by the Army and Navy undergraduates. In the best interests of the two services the Army-Navy football game as it is now played should be replaced by a combined Army-Navy team that would play, as the final game of the year, the outstanding college team in a particular section of the country. Over a period of years, therefore, the Army-Navy combined football team would meet the outstanding teams in every part of the country—north, south, east and west.

In order to keep the cooperative spirit at its highest pitch some such rule might be formulated that would require, for example, that at least four players from any one team must be on the field at all times during the game. This would prevent inadequate representation by the Academy having the poorer record during the year. The coaching of the combined Army-Navy football team would be undertaken jointly by the coaching staffs of the two academies, thus bringing together in a common effort the faculties as well as the student bodies of the two institutions. . . . Yes, I can hear the cries of those who will want no change in the annual gridiron clash between the Army and the Navy, but it seems to me that the new game would provide a far greater contribution to the public interest.

Conflict Between Housing and Inflation Control

Monthly Review of Federal Reserve Bank of Chicago holds if no further inflation is to be countenanced in housing, a decline in residential construction appears probable, because of tightening mortgage market.

The May issue of "Business Conditions," published by the Federal Reserve Bank of Chicago, in reviewing mortgage trends and home-building prospects, points out a growing intensification of the conflict between housing activities and efforts at inflation control.

"How high a price—in terms of inflationary consequences—are the people in the Seventh District and the nation willing to pay to continue the present record level of homebuilding?" the "Review" states. "Here is the key question which home seekers, builders, lending institutions, investors, and the government must face during coming months. If the answer is that little further inflation is to be countenanced in housing and elsewhere, then a decline in residential construction appears probable within a year or sooner because of tightening conditions in the mortgage market. If the answer is that social considerations and rearmaments needs dictate continuation of current housing output even at the cost of greater inflation, then the postwar housing boom can be expected to persist."

Continuing, the "Review" remarks:

"While more than 1.3 million permanent dwelling units have been completed in the nation since the end of the war, there has been little indication until recently that increases in housing supply have more than offset new family formation. A mounting number of prospective home buyers are now finding themselves unable to enter the housing market for either new or older dwelling units. Rising down payment requirements as a result of more conservative appraisals or lower loan-value ratios constitute the principal factor underlying this trend. Mortgage lenders, institutions, and individuals, moreover, are becoming much less willing to risk their funds at high loan-value ratios, long maturities, and at interest rates which are low relative to those prevailing for alternative investments. Because of this tightening of private mortgage terms strong pressures currently are being exerted to increase rates on government insured loans and to create a 'secondary' mortgage market through the RFC or some other governmental agency. Many observers predict favorable Congressional action on these proposals—in other words, the answer to the question raised initially, in part at least, may well be 'more inflation and more homes'."

Security Traders Association of New York

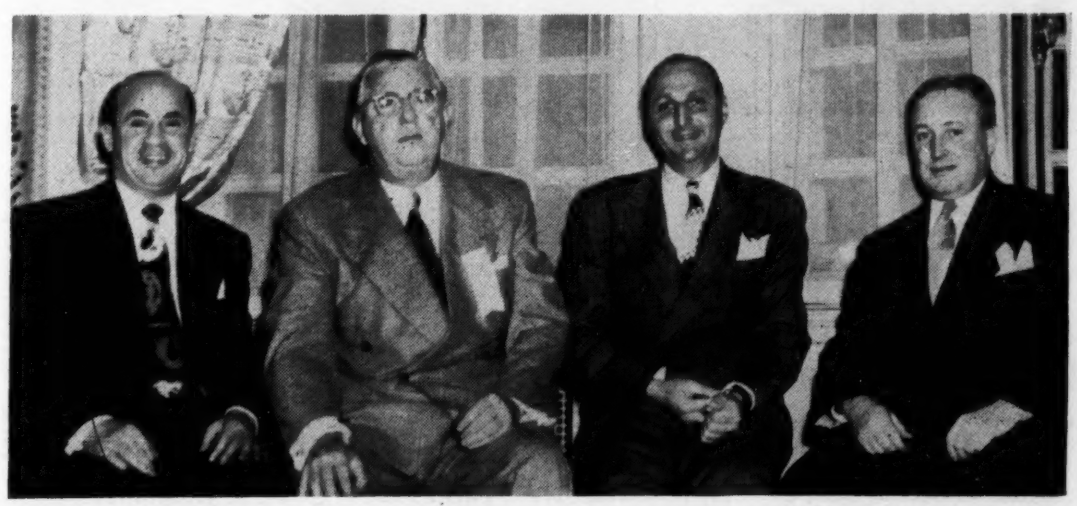
Nolan Harrigan, *Irving Trust Co.*; Harry D. Miller, *Nugent & Igoe*, East Orange, N. J.; James A. Treanor, Jr., guest; John J. O'Kane, Jr., *John J. O'Kane, Jr. & Co.*, President of Security Traders Association of New York; William M. Rosenbaum, guest.

Vic Mosley, *Stroud & Co.*, Philadelphia, President of the National Security Traders Association; Russ Dotts, *Hess & Co.*, Philadelphia; Ben Van Keegan, *Frank C. Masterson & Co.*; Clair S. Hall, *Clair S. Hall & Co.*, Cincinnati, Ohio

Charles Gross, *Harry M. Sheely & Co.*, Baltimore, President of the Baltimore Security Traders Association; Merritt Coleman, *Allen & Co.*; John J. Meyers, Jr., *Gordon Graves & Co.*; Herman D. Meyer, *Stern & Co.*; Richard Goodman, *Cohu & Co.*

Peter T. Byrne, *Securities & Exchange Commission*; Francis A. Truslow, President of the *New York Curb Exchange*; Frank Scheffey, *National Association of Securities Dealers*; Edward C. Werle, Chairman of the Board of the *New York Curb Exchange*

John L. Canavan, *Rauscher, Pierce & Co.*, Dallas, Texas; Lou Walker, *National Quotation Bureau*; George V. Leone, *Frank Masterson & Co.*; Philip C. Kullman, Jr., *John J. O'Kane, Jr. & Co.*



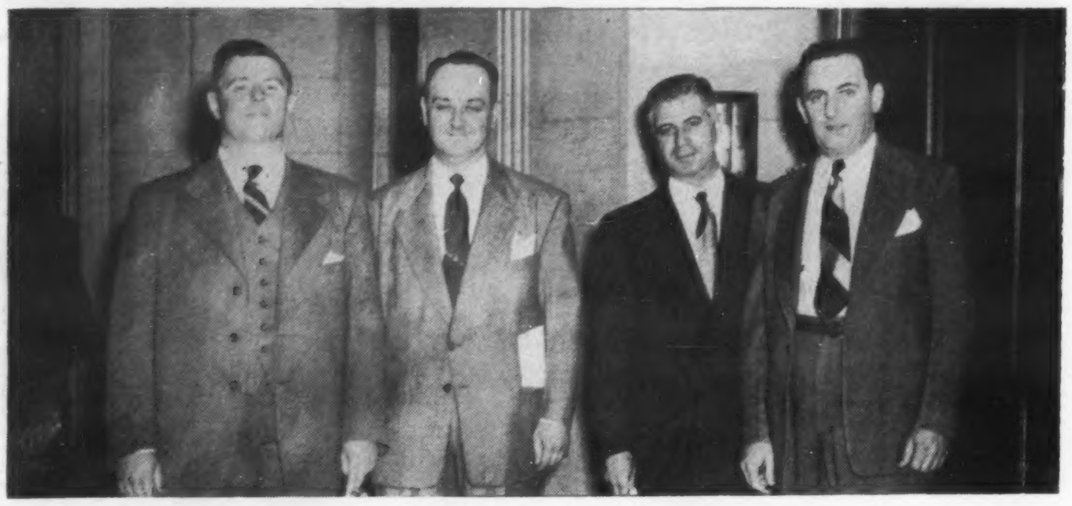
Irving A. Greene, *Greene & Co.*; Larry T. Doyle, *Hardy & Co.*; Herbert Allen, *Allen & Co.*; E. Jansen Hunt, *White, Weld & Co.*

John Butler, *Geyer & Co.*; William Hart Smith, *Hart Smith & Co.*; Sal Rappa, *F. S. Moseley & Co.*

James F. FitzGerald, *W. L. Canady & Co., Inc.*; Jeanne Girard, accordion player; Tom Greenberg, *C. E. Unterberg & Co.*

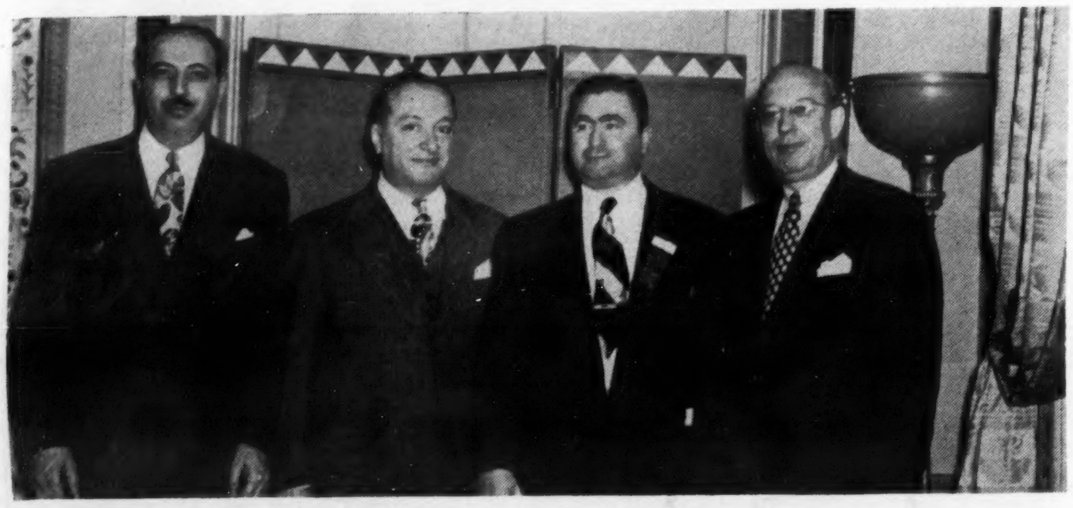
Edward C. Gray, First Vice President of *New York Stock Exchange*; Col. Oliver J. Troster, *Troster, Currie & Summers*; Harold B. Smith, *Collin, Norton & Co.*

Twelfth Annual Dinner



Bill Kumm, *Dunne & Co.;* Julius Golden, *Greene and Company;* Leo Goldwater, *Goldwater & Frank;* Leo Adler, *E. F. Hutton & Co.*

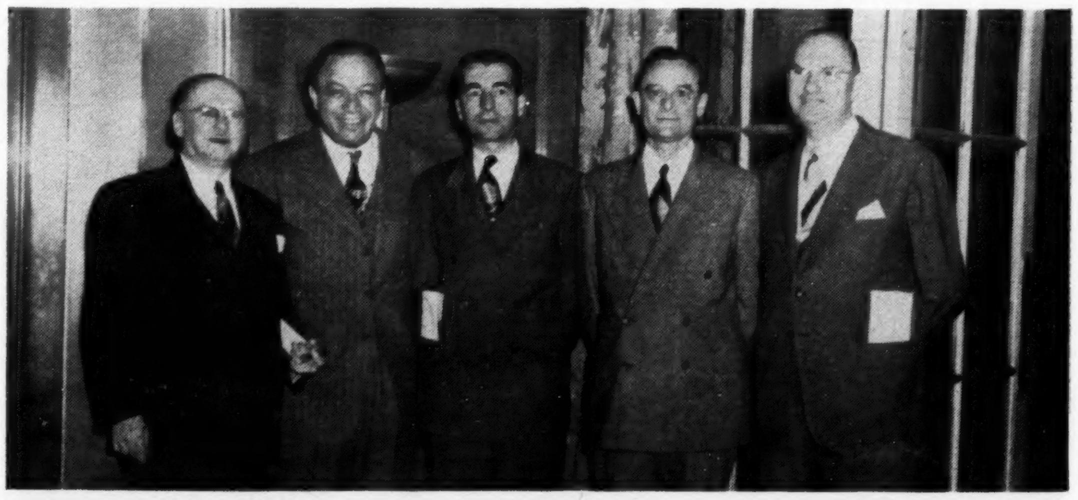
Oliver A. Kimberly, *J. K. Rice, Jr. & Co.;* Connie Sheridan, *Mitchell & Co.;* Jack Scrimgeour, *J. K. Rice, Jr. & Co.;* Joseph Carucci, *J. K. Rice, Jr. & Co.*



Nat Krumholz, *Siegel & Co.;* Frank A. Pavis, *Chas. E. Quincey & Co.;* Michael J. Heaney, *Joseph McManus & Co.;* Charles D. Ogden, *Ogden, Wechsler & Co.*

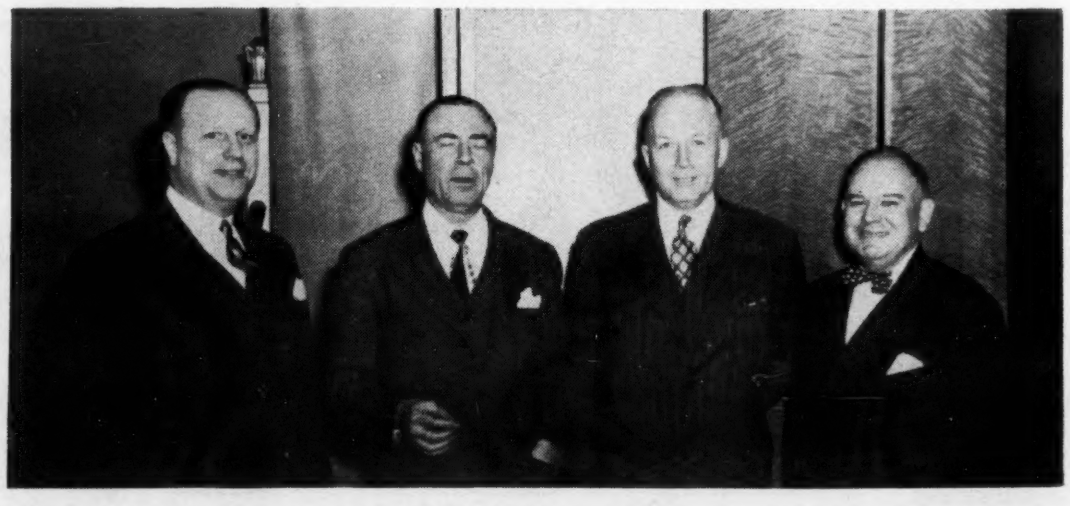
Bert Seligman, *Ward & Co.;* Joe Eagan, *Frank C. Masterson & Co.;* Hanns E. Keuhner, *Joyce Kuehner & Co.;* Harry D. Casper, *John J. O'Kane, Jr. & Co.;* Mel Wien, *M. S. Wien & Co.*

W. H. A. Basserman, *Bank of Montreal,* New York; Ernest Howard, *Dominion Securities Corp.;* James K. Miller, *Dominion Securities Corp.;* Norman C. Single, *Dominion Securities Corp.;* William Korn, *Dominion Securities Corp.;* Vincent Shea, *Glore, Forgan & Co.*



Sam Englander, *Seligman, Lubetkin & Co.;* Leroy Klein, *Lebenthal & Co.;* Newt H. Parkes, Jr., *E. H. Rollins & Sons,* Philadelphia; Irving J. Silverherz, *Seligman, Lubetkin & Co.;* G. E. Williams, *Pennsylvania Company for Banking and Trusts,* Philadelphia

E. E. Parsons, Jr., *Wm. J. Mericka & Co., Inc., Cleveland;* J. S. Alberti, *Reynolds & Co.*

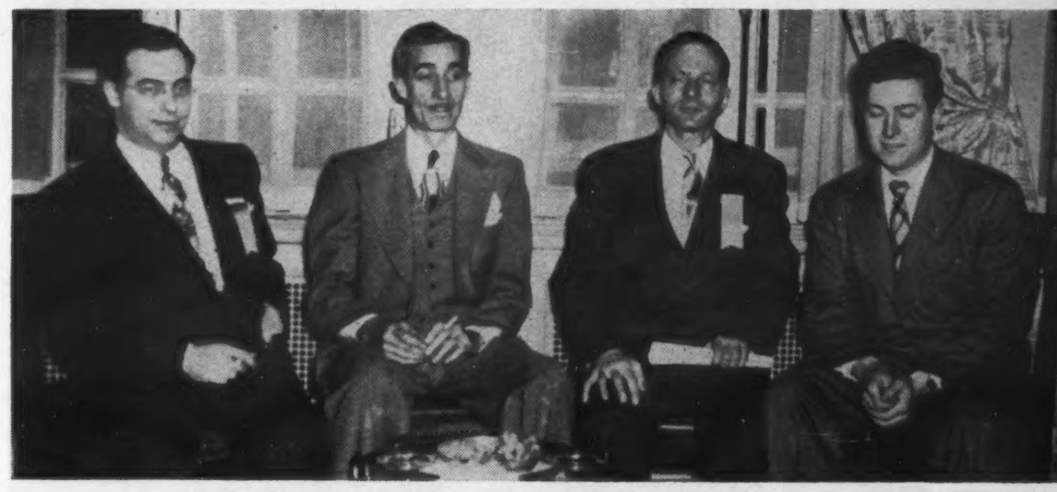


Edwin L. Beck, *Commercial & Financial Chronicle;* Ken Taylor, *New York Journal of Commerce;* Howard C. Allen, *Albert Frank-Guenther Law, Inc.;* Shelley Pierce, *New York Journal of Commerce*

Gene Brady, *Herbert E. Stern & Co.;* Alton Plunkett, *Orvis Bros. & Co.*

April 19th at the Waldorf-Astoria

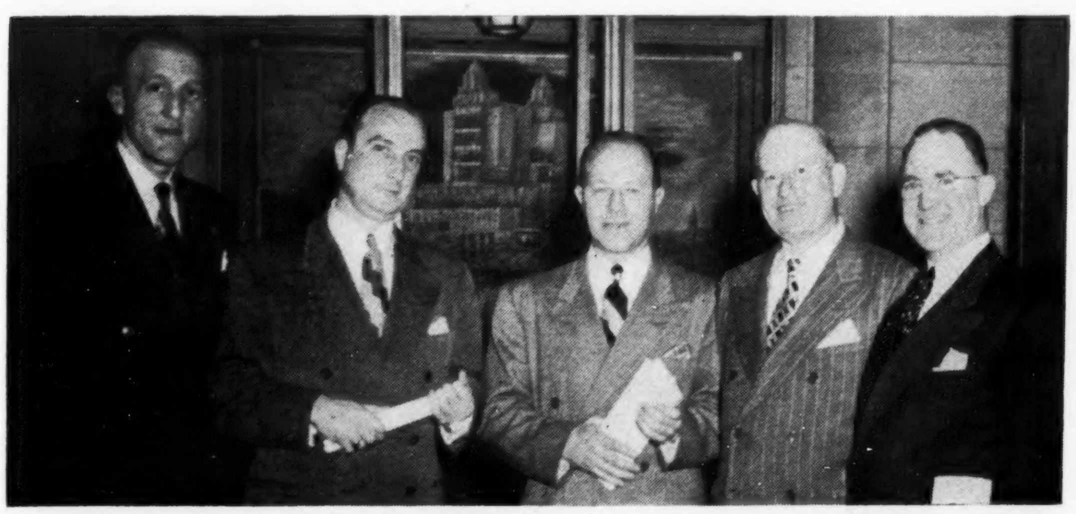
Frank J. Reynolds, President of *Albert Frank-Guenther Law, Inc.*; Michael E. Mooney, *Securities & Exchange Commission;* Elmer E. Myers, *B. W. Pizzini & Co., Inc.*; Alfred F. Tisch, *Fitzgerald & Co., Inc.*; Soren D. Nielsen, *Newburger, Loeb & Co*



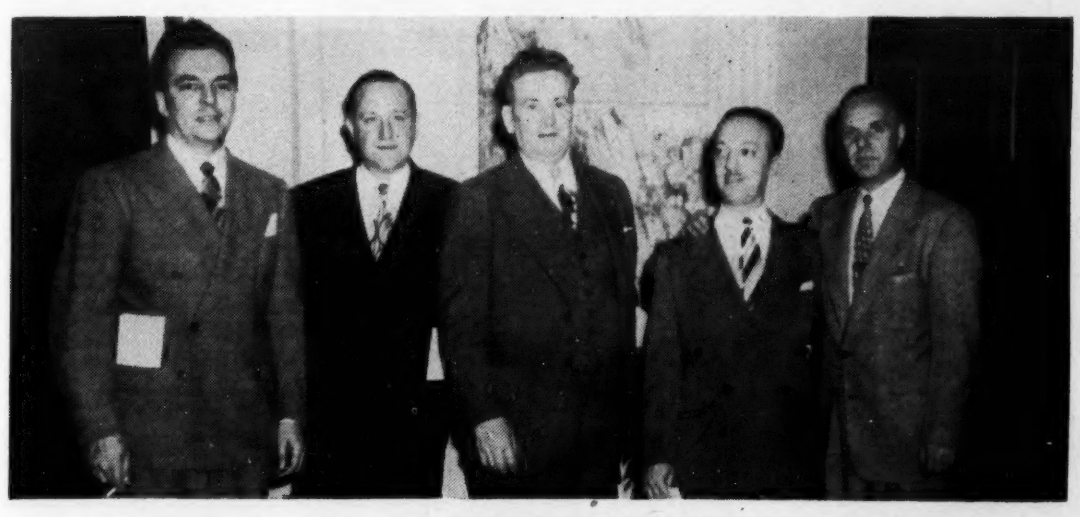
Arnold J. Wechsler, *Ogden, Wechsler & Co.*; Robert A. Torpie, *Merrill Lynch, Pierce, Fenner & Beane;* Leslie Barbier, *G. A. Saxton & Co., Inc.*; Desmond D. McCarthy, *Merrill Lynch, Pierce, Fenner & Beane*

D. Raymond Kenney, *Kenney & Powell;* Joseph A. Kelly, *Francis I. du Pont & Co.*; Herman A. Feldmann, *Geyer & Co., Inc.*; John Sherger, *Francis I. du Pont & Co.*

Abe Strauss, *Strauss Bros., Inc.*; Jack Gertler, *Gertler Stearns & Co.*; Stanley Roggenburg, *Roggenburg & Co.*; Walter F. Saunders, *Dominion Securities Corp.*



William L. Weiffenbach, *Chas. E. Quincey & Co.*; L. Greenwald, *B. L. Taylor III & Co.*; Lou Adler, *Goldman, Sachs & Co.*; Lester Gannon, *W. T. Bonn & Co.*; George Gorman, *Dobbs & Co.*



Phil Arnheiter, *Laird, Bissell & Meeds;* Tom Lynch, *Laird, Bissell & Meeds;* Jim Kelly, *Tifft Bros.*, Springfield, Mass.; Julius D. Brown, *Hirsch & Co.*; Larry Sills, *Hirsch & Co.*

A. W. Marsland, *Wood, Gundy & Co.*; Adrian Frankel, *Seligman, Lubetkin & Co.*; Joe Markman, *E. W. Smith Co.*, Philadelphia

W. T. Schmidt, *Laird, Bissell & Meeds;* Samuel E. Magid, *Hill, Thompson & Co.*; Howard Von Dehsen, *F. S. Moseley & Co.*

Max Barysh, *Ernst & Co.*; Burton A. Barysh, *P. F. Fox & Co.* (Max Barysh's son); Murray L. Barysh, *Ernst & Co.* (Max Barysh's brother)

Pronounced Huge Success

James P. Cleaver, *Goodbody & Co.*; Jim Waters, *First Boston Corp.*; Jack Barrett, *First Boston Corp.*; Edward H. Robinson, *Schwabacher & Co.*; George Nelson, *Schwabacher & Co.*

Sidney A. Shaskan, *Shaskan & Co.*; Harold I. Murphy, *Bonner & Gregory*; Ben Grody, *Benjamin Grody Company*; Roy Moeschen, *Hugh W. Long & Co.*; Thomas C. Darrie, *Bonner & Gregory*

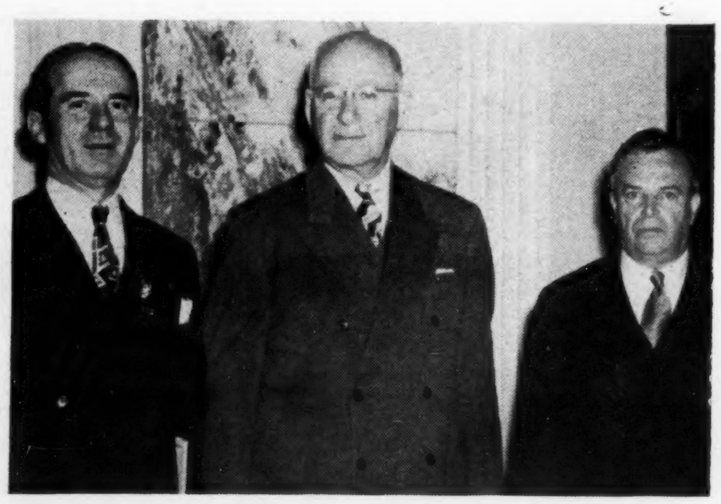
Frank Dunne, *Dunne & Co.*; David R. Mitchell, *Blair F. Claybaugh & Co.*; John E. Graham, *Brainard, Judd & Co.*, Hartford, Conn.; Clifton B. Smith, *Francis I. du Pont & Co.*

Graham Walker, *National Quotation Bureau*; H. Frank Burkholder, *Equitable Securities Corp.*, Nashville, Tenn.; Henry Oetjen, *McGinnis, Bampton & Sellger*; Joseph Nye, *Freeman & Co.*; Joseph J. Janareli, *Joseph Janareli & Co.*

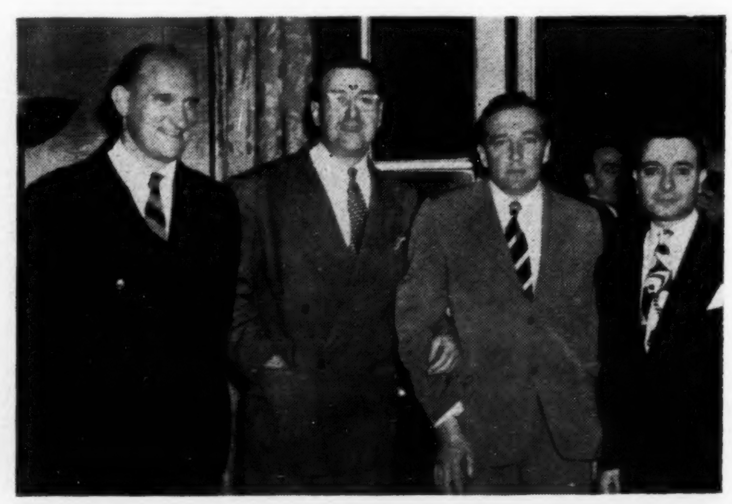
T. Geoffrey Horsfield, *Wm. J. Mericka & Co.*; John M. Mayer, *Merrill Lynch, Pierce, Fenner & Beane*; Harvey C. Fowler, *Dominion Securities Corp.*, Toronto; E. S. Robinson, *G. B. Wallace & Co.*

Frank T. McKee, *Stroud & Co., Inc.*, Philadelphia; Vic Reid, *Growney & Co.*; William M. Doherty, *A. M. Kidder & Co.*; Allan Kadell, *E. H. Rollins & Sons, Inc.*; Mike Growney, *Growney & Co.*

George E. Lestrange, *Arthurs, Lestrange & Klima*, Pittsburgh; John D. Hines, *Dean Witter & Co.*; William Perry Brown, *Newman, Brown & Co.*, New Orleans

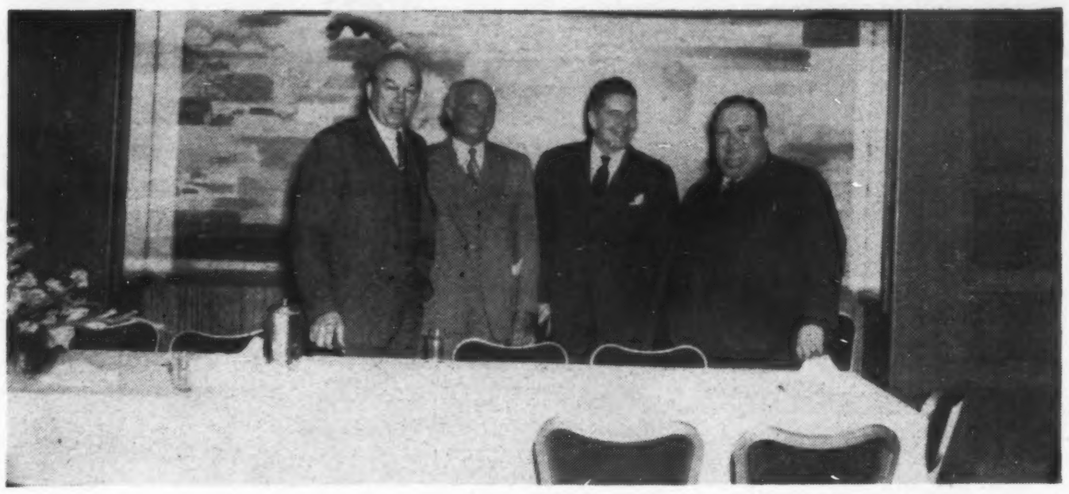


Wm. F. Goulet, *Goulet & Stein*; David Winston, *L. H. Wright Co.*; Peter Barken

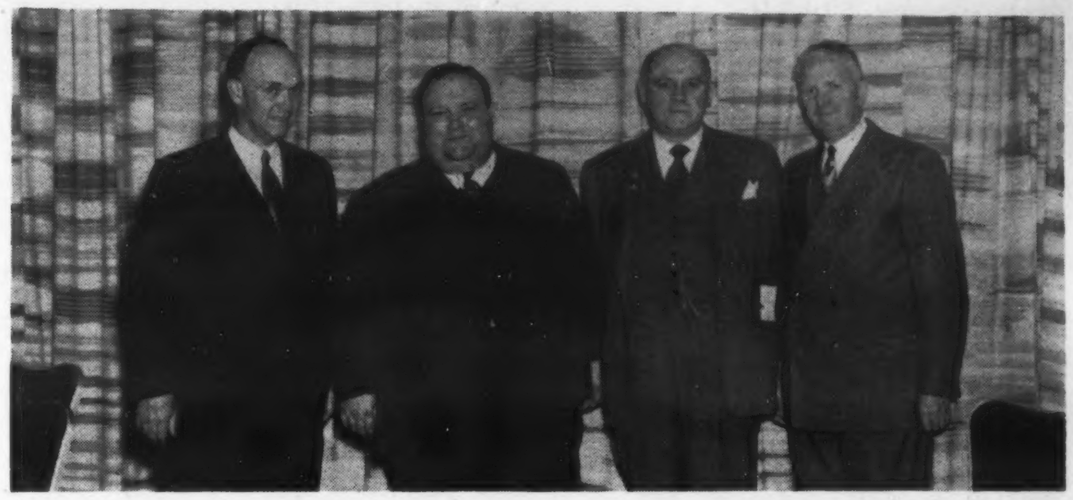


Andy Hachtmann, *Bonner & Gregory*; Paul Jacoby, *Asiel & Co.*; Fred Gearhart, Jr., *Gearhart & Co.*; Joseph M. Rinaldi, *Lerner & Co.*, Boston

Second Annual Dinner of NSTA and SEC



Harry A. McDonald, *SEC Commissioner;* Edmond M. Hanrahan, *SEC Commissioner;* Robert K. McConnaughey, *SEC Commissioner;* Richard B. McEntire, *SEC Commissioner*



R. Victor Mosley, *Stroud & Co.*, Philadelphia, Pa.; Richard B. McEntire, *SEC Commissioner;* Edward Cashion, *SEC Staff Member;* Hon. Fred. E. Busbey, *House of Representatives,* Chicago, Ill.

Ludwell A. Strader, *Strader, Taylor & Co.*, Lynchburg, Va.; L. E. Walker, *National Quotation Bureau*, New York, N. Y.; T. G. Horsfield, *Wm. J. Mericka & Co., Inc.*, New York, N. Y.; Harold B. Smith, *Collin, Norton & Co.*, New York, N. Y.

Willis M. Summers, *Troster, Currie & Summers,* New York, N. Y.; Star Koerner, *Mitchell, Hutchins & Co.*, Chicago, Ill.; Charles Cole, *SEC Staff Member;* Edward H. Welch, *Sincere & Co.*, Chicago, Ill.; H. Frank Burkholder, *Equitable Securities Corp.*, Nashville, Tenn.

Charles W. Hahn, *Scherck, Richter Co.*, St. Louis, Mo.; Sherry McAdam, *SEC Staff Member;* Louis Loss, *SEC Staff Member;* Paul W. Yarrow, *Clement, Curtis & Co.*, Chicago, Ill.

Wm. Perry Brown, *Newman, Brown & Co., Inc.*, New Orleans, La.; John L. Canavan, *Rauscher, Pierce & Co.*, Dallas, Texas; Morton A. Cayne, *Cunningham & Co.*, Cleveland, Ohio

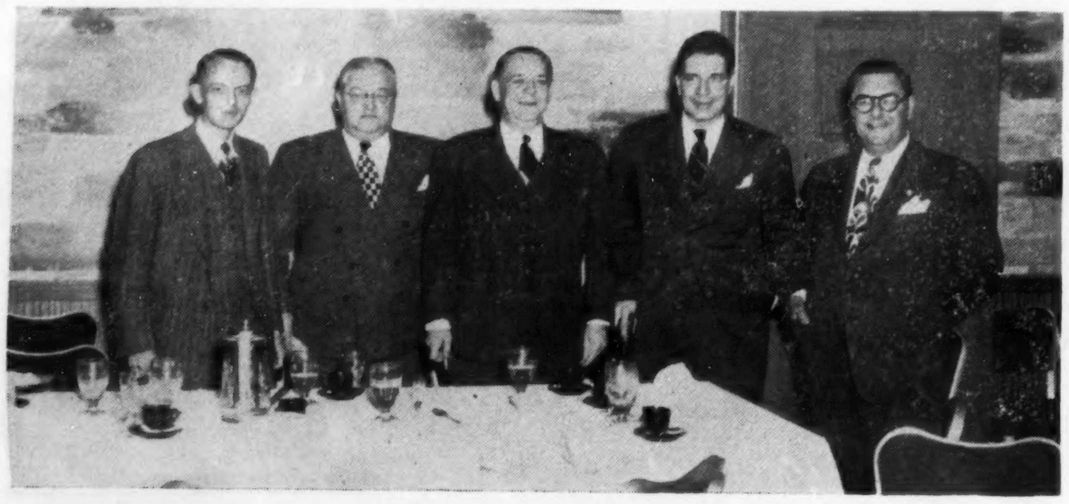
SEC Commissioner's Staff, and N.S.T.A. Officers and guests

Edward Cashion, *SEC Staff Member;* E. E. Parsons, Jr., *Wm. J. Mericka & Co., Inc.*, Cleveland, Ohio

Held in Washington, April 21st

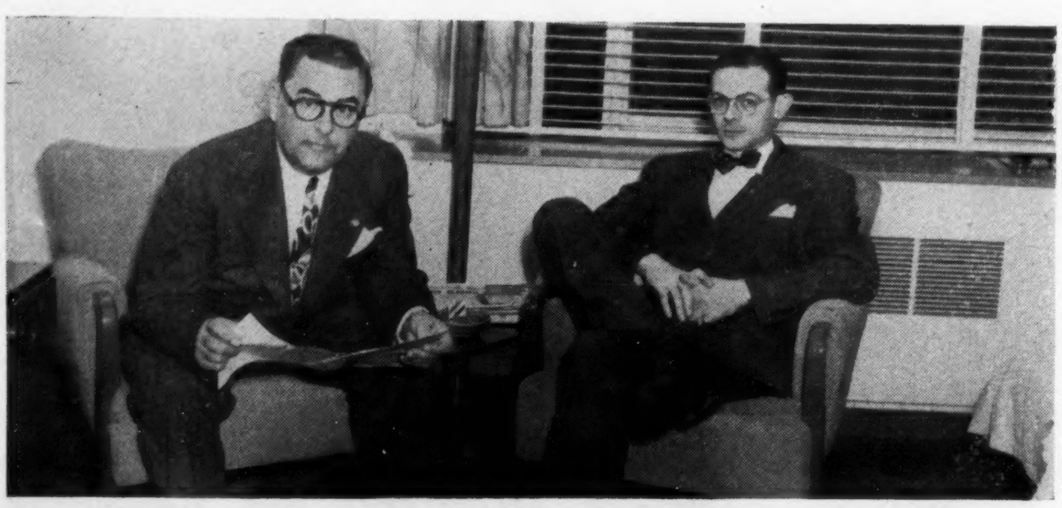
Front: Charles Cole, *SEC Staff Member;* Anthon Lund, *SEC Staff Member;* Edward Cashion, *SEC Staff Member.* Back: Joseph Keenan, *SEC Staff Member;* Frank Gibbons, *SEC Staff Member;* Michael Mooney, *SEC Staff Member*

Paul I. Moreland, *Moreland & Co.*, Detroit, Mich.; Stanley Roggenburg, *Roggenburg & Co.*, New York, N. Y.; Michael J. Heaney, *Joseph McManus & Co.*, New York, N. Y.; Clair S. Hall, Jr., *Clair S. Hall & Co.*, Cincinnati, Ohio



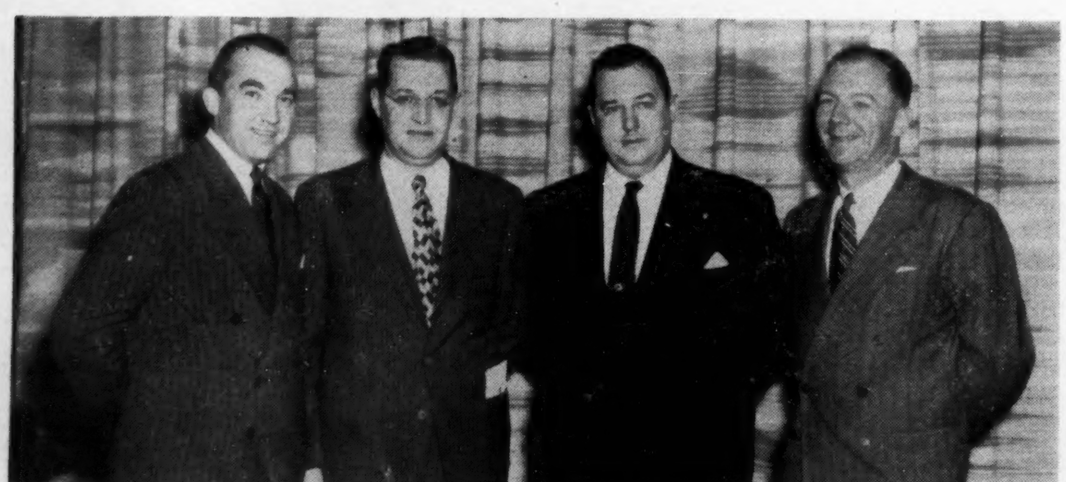
John M. Hudson, *Thayer, Baker & Co.*, Philadelphia, Pa.; Harold B. Smith, *Collin, Norton & Co.*, New York, N. Y.; John J. O'Kane, Jr., *John J. O'Kane, Jr. & Co.*, New York, N. Y.; Robert K. McConnaughey, *SEC Commissioner;* Chester E. de Willers, *C. E. de Willers & Co.*, New York, N. Y.

Ludwell A. Strader, *Strader, Taylor & Co.*, Lynchburg, Va.; L. E. Walker, *National Quotation Bureau*, New York, N. Y.; Frank Gibbons, *SEC Staff Member;* Arthur E. Engdahl, *Goldman, Sachs & Co.*, Boston, Mass.; H. Frank Burkholder, *Equitable Securities Corp.*, Nashville, Tenn.



Chester E. de Willers, *C. E. de Willers & Co.*, New York, N. Y.; Morton A. Cayne, *Cunningham & Co.*, Cleveland, Ohio

Lester T. Doyle, *Hardy & Co.*, New York, N. Y.; Morton A Cayne, *Cunningham & Co.*, Cleveland (in back)



Russell M. Ergood, Jr., *Stroud & Co.*, Philadelphia, Pa.; Anthon Lund, *SEC Staff Member;* Ludwell A. Strader, *Strader, Taylor & Co.*, Lynchburg, Va.; Joseph Keenan, *SEC Staff Member*

SEC Commissioner's Staff, and N.S.T.A. Officers and guests

Outlook for Electric and Gas Utilities

(Continued from page 6)
sulted from purely defense activities.

One word of caution, however, is appropriate. The recent performance of utility equities should be a matter of great concern to the regulatory authorities. "The new concepts of rate regulation, and the various onerous forms of rate making which have sprung up with the adoption of those concepts, have left the industry without reserves of earning power to meet maintaining costs of construction and operation. These types of regulation have so far been endurable solely because of the great palliative of cheap money, the availability of which is decreasing under the inevitable (making) working of the law of supply and demand. It is sincerely hoped that regulatory bodies will seek to forestall the disastrous consequences that can result if the industry continues to be placed at a disadvantage in competing for capital."[2]

The Pressure of Price Increases

The earnings statements of the electric and manufactured gas utilities are under pressure of increased prices for fuel, freight and wages. This of course is not peculiar to the utilities for we still appear to be in a period of rising prices. However, since the selling price of utility services is regulated and increases can at best be effected slowly, the revenue cost relationships are out of line for the utilities and this is especially true of the manufactured gas utilities. But this does not necessarily mean that the equity earnings are unsatisfactory or will become unsatisfactory; in fact, quite the reverse is true as to the electric utilities. In the case of the manufactured gas utilities numerous rate increases have already been given. In the case of the electric utilities such rate cases will become more numerous in the months ahead—proceedings have already been started in Detroit and, in our own system, in York, Pennsylvania.

Consider the impact of fuel price increases for the electric utilities. Expenditures for fuel now represent about 30% of operating expenses and about 16% of revenues. These ratios were 28% and 12.9% four years ago. These increases do not seem substantial when consideration is given to the very large increase in coal prices over the same period. For example, Metropolitan Edison Company paid $5.52 per ton for coal at the beginning of 1944. It now pays $7.93. This is a large increase but the impact on costs was not as great as one would suppose, the reason being that coal clauses in industrial rates recovered some of the increase, and savings in Federal taxes absorbed another part. For example, in our system, fuel and freight rate increases amounted to $3,100,000 in 1947. We recovered $1,900,000 or 61% from increased revenue due to fuel clauses. We recovered $450,000 or 15% in reduced Federal taxes. Thus, of the $3,100,000 increase in fuel and freight costs, only $750,000 or 24% was carried down to operating income.

Now, on to wages and salaries. Current expenditures for the electric utilities are about 37.4% of the total operating expenses and 19.7% of revenues. These ratios were 36% and 16.4% four years ago. It will be seen that wages now are the largest single item of expense. Unlike coal price increases it is more difficult to absorb them. Many of our employees work at tasks which are fixed. For example, it takes a given number of employees to run a power plant. And yet — there is considerable room for better labor performance and utilization, and improvement is being made. While I recognize that our labor costs do not have the flexibility of some manufacturing enterprises, I still wish that you would consider that we do work diligently and effectively to lessen the impact of rising labor costs. And we don't have to speculate about this. The July, 1947 Supplement of the Department of Commerce Survey of Current Business shows employment by various industries. If we use 1936 as a base we find that the electric and gas utility index of employment was 102 in 1929 and 102 in 1946. The index for all industry was 100 in 1929 and 135 in 1946 but the index for civilian Federal employees had gone from 50 in 1929 to 351 in 1946. The index for Federal enterprises such as RFC, FPC, SEC, REA, TVA and the like moved from 75 in 1929 to 134 in 1946. Here then is an example of how utility managements apply themselves to overcome adverse cost relationships. They have no choice! They, unlike Federal and municipal utility ventures, have to survive through an income statement and remain solvent with a balance sheet which is in balance.

The impact of wage and fuel price increases on the manufactured gas utilities is of course much greater than on any other branch of the industry. For example while operating expenses take 52% of the electric utility's dollar, such expenses amount to 69% of the manuafctured gas utility's dollar. Strangely, the manufactured gas utilities have not widely adopted the fuel clause adjustment feature in their rate structures although some companies are attempting to do so now.

The influence of price changes on the natural gas pipeline companies and the natural gas distributing companies is of course less. And here the large increase in competitive fuel prices has created a vigorous market which will go a long way to partly absorb any further price increase.

I look for the price pressures to continue and hence the following discussion of rate increases takes on considerable significance.

Rate Increases

Some of you have treated the rate problem in the light of the rate-of-return formula. This formula is easy to understand but is quite frequently understood in its application. Most of our rates are not fixed by such formulas. We have been able to sit down in many regulatory jurisdictions and work out agreeable end-result schedules. For example, because of extensive recapitalization or refinancing programs our subsidiaries have reduced rates and made rate reductions which have saved customers $7,500,000 on an annual basis in the last five years. In spite of such reductions and in spite of the increased costs, we have more than held our own at the level of income available for common stock.

It is difficult for me to say what the industry may or may not do with respect to rate increases but I can tell you what our general policy will be. Our past record shows that we have a strong interest in promoting greater use of service and in making rate cuts where these will help. However, because of inflated economic conditions now, we have sought and intend to seek rate increases whenever we can make out a good case and we don't intend to wait until the horse has been stolen. We expect that when such rate increases are made they will first be made in the industrial rates. This is quite natural. Many industrial rates were fixed competitively in the first instance. To the extent that increased costs are incremental, as for example most of the fuel costs, the margin between the industrial rate and the total unit costs becomes much narrower and we would not be surprised if in some cases the total unit cost now exceeds the unit industrial revenue received from the large power users. Furthermore, since the cost of competing sources of energy has increased much more in the industrial classification it should be easier to make upward revision of these rates.

At this point, I can't resist lifting a paragraph out of the New York Public Service Commission's Report to the New York Legislature on the gas situation in that state. The report was made in January of this year. It states the rate problem quite directly and should give assurance that, where justified, rate increases will be granted. I think it is management's job to time the rate increases so that the least effect may be felt upon the equity earnings:

"A very important fact regarding the expansion of facilities to meet the demands of applicants for additional gas service has escaped the full attention it deserves. The cost of constructing additional generating, transmission and distribution facilities is now very much greater than it has been for a whole generation. Utilities are required to make these expenditures in order to comply with the statutory requirement that adequate service must be provided. As an inevitable result, the cost of producing and distributing this greatly increased demand will be heavy and consumers must be prepared to pay not only the increased operating costs but also depreciation, taxes and a fair return upon the investment which utilities are virtually compelled to make. In unregulated competitive business a producer may refuse to expand if he thinks the investment at inflated prices is unjustified because in the future a competitor will provide plant at the then reduced cost. The public utility has no option. It has a public duty to provide adequate service."

The Construction Program

The electric utilities expect to spend $6,000,000,000 for new facilities in the five years ending 1952. No comprehensive estimate for the gas utilities is available but the total may reach $1,500,000,000 in the same period.

For the electric utilities, much of the new generating station investment will provide for better capacity margins, some of it will be taken up by new loads and some of it will replace presently less efficient generating units. The latter in turn will be useful as standby facilities. Nearly all the projected increased generating facilities in our system will be useful to replace less efficient generating plants and replace purchased power so that savings in operating costs will follow.

Of course the projected construction must be paid for. The industry has current resources to pay for about 8% of the estimated construction program. It can finance 35% of it with funds provided by non-cash items in the income statement, such as depreciation, amortization and retained earnings. It should be able to raise about 35% of the funds through the sale of bonds and 12% through the sale of preferred stock. The small balance, or 10%, will have to be provided by present or additional stockholders. If the construction program should for some reason be spread out over a longer period, the requirements for equity capital will, of course, be reduced.

In this connection it may be of interest to review our system financing program for 1948.

The large amount for tax accruals arises out of an unusual non-recurring tax saving resulting from holding company transactions and incidentally shows

Source of Funds	Total	%
Current Resources	$5,600,000	8.2
Depreciation	14,300,000	20.9
Tax Accruals	9,750,000	11.2
Undistributed Earnings	6,750,000	9.8
Bonds	12,700,000	18.5
Preferred or Notes	11,900,000	17.3
Common (from Parents)	7,600,000	11.1
Total	$68,600,000	100.0

that holding companies do in fact make substantial contributions to the welfare of their subsidiaries.

Interest and dividend rates on the new bonds and preferred stocks will undoubtedly be higher and some of the preferreds will have sinking funds. I wonder if this increased money cost may not be a blessing in disguise. It seems to me that where the rate-of-return formula has been applied the tendency has been to fix such rates of return at decreasing levels. I think this trend has been arrested. May it not also mean that higher over-all rates-of-return may now be expected?

Integration

A large number of equities of electric and gas utility companies have been sold or distributed by the holding companies under pressure of the Public Utility Holding Company of 1935. I have a feeling that the rate of such sales and distribution has adversely affected the utility equity market and what is more important that the prospect that large numbers of such equities are likely to come on to the market is now acting as a depressant.

The SEC has very broad powers under the Act. The conception of what constitutes an integrated system is almost entirely within the Commission's determination. I think it is fair to say that the Commission's determinations on integration matters have been on the narrow side and this feeling is shared by the recent 20th Century Fund study, "Electric Power and Government Policy" . . . "Apparently, the Commission means to imply that it is not its intention so to act as to destroy or seriously impair such value as remains to holding company investors; but, if so, it is hard to see why it does not come right out and say so. The Commission should no doubt reserve to itself its authority to determine upon the facts of each case whether conditions do make compliance with a divestment order economically unwise; but a straightforward public reassurance of the kind implied in the Commission's recent pronouncements would in the opinion of this Committee, be of substantial public benefit."[3]

On Page 772 the study continues:

"Moreover, the Commission has indicated a tendency to insist upon the desirability of 'free and unrestrained' competition as between gas and electric service in a given area to the point of creating a heavy presumption against the retention of combined electric and gas operations. It is not clear that Congress in the Holding Company Act attempted thus to solve one of the most controversial questions in the whole field of public utility economics."

It would seem that the Commission in carrying out its duties under the Holding Company Act as to integration would reorient its position not only as to the individual situations but also as to the impact of carrying out the integration program on an industry wide basis.

Public Power

I cannot help but comment on some aspects of public power because of the impact public power programs have on investors. About 12.6% of the total electric output for public use in 1947 was from Federal establishments. Ten years before only .6 of 1% was supplied by such enterprises. The large growth of course stems from the Bonneville, Grand Coulee and TVA, and other Federal projects, many of which increased their capacity, allegedly for defense purposes. Incidentally, it is interesting that such expansion of capacity for defense purposes came at a time when the private utilities were unable to provide capacity for their growing loads.

If it is sound public policy to construct dams for irrigation, navigation and/or flood control and if the generation of power in connection with such projects is incidental and economical, none can deny the propriety of constructing dams for such purposes. The difficulty arises in restraining Federal agencies and public power enthusiasts from going beyond such purely incidental development. There is currently a typical case in point. TVA started out as a flood control-navigation —and, only incidentally, power—development. It preempted its electric service territory—buying all the private utilities. The distribution systems were sold to municipalities, the rural systems to co-ops—TVA retaining the generating stations, the transmission lines and pretty much the whole pattern of electric utility operations in the TVA territory. It was soon discovered that hydro generating stations had limitations of reliability and so a 100,000 KW steam station was built. Then came the war and the defense plea was worked overtime, so TVA was permitted to provide more capacity. Now that the war is over, TVA plans another huge steam station—again "for defense purposes"—and so a public power venture which starts off as an incidental business grows to a giant size by taking advantage of one emergency or another.

And, of course for varied reasons, the New Deal encouraged public power and municipal utilities. In many cases the aid was in the form of outright grants. For example, 7.5% of all PWA allotments were for public power development. In addition, Congress made substantial allotments to REA. The investment of the Federal Treasury in TVA power development amounts to about $400,000,000 based on TVA's allocations. These allocations are in dispute—the allegation being that they are on the low side.

Now I recognize that the electric utilities have been doing quite well in spite of the expansion of public power but in fairness to the private utilities a forthright statement of the Federal Government's public power program should be made. . . . "Perhaps it may not be too much to hope that once the relation of Federal projects to private systems has been clearly defined and pricing policies of multiple-purpose projects have been formulated on an understandable social basis, freed from invidious comparisons based on dubious cost allocations, the scope of mutually beneficial cooperation between public and private systems will grow. Public systems must, of course, pursue those price and non-price experiments in load building and in efficient distribution that have aroused a too complacent private management. But direct competition and duplication of facilities are uneconomical. Litigation is wasted opportunity. In their elimination, the general public has much to gain."[4]

"In the development of Federal systems, little attention has been given so far to the fundamental issue: what principles or condi-

(Continued on page 32)

2 1947 Annual Report of the North American Company.

3 Page 770, Electric Power and Government Policy — 20th Century Fund (1948).

4 Page 667, Electric Power and Government Policy—20th Century Fund (1948).

Outlook for Electric and Gas Utilities

(Continued from page 31)

tions should define the limits, if any, of Federal participation in the power business; and on what basis is private capital to compete or cooperate with public investment? Unlimited competition in an industry with rigid investments is not healthy. Uncertainty concerning the future tends to discourage the expansion of private enterprise; thus, deferred maintenance was the rule among the utility systems acquired by TVA and its contractors. Although the competition between public and private systems is no longer an issue in the Tennessee Valley, it is a live problem in the Pacific Northwest. In general the threat of Federal projects and municipal competition tends to undermine the investment rating of utility stocks."[5]

I began this discussion of public power for the reason that the uncertainties regarding it make the carrying out of the expansion program, to which I will refer later, doubly difficult. Another reason for concern is the inevitable use which public power enthusiasts make of public power rates as against rates charged by the private utilities.

The TVA annual power report for 1947 carries a chart which shows TVA progress against that of the country as a whole—obviously for propaganda purposes for nowhere in the report is there reference to the fact that TVA and its distributors pay only a small portion of state and local taxes **and no Federal taxes at all.** The following comparison of tax burdens shows why the rates are not comparable:

GROSS INCOME AND TAXES OF CLASS A AND B ELECTRIC UTILITIES AND TVA AND THEIR DISTRIBUTORS

(In millions of dollars)

	Class A & B Elec. Util. 12 Mos. End. Mar., '47		TVA and Distributors 12 Mos. End. June, '47	
Gross Income Before Taxes	$3,449.0	100.0%	$44.2	100.0%
Total Taxes	633.7	18.3	4.1	9.3
State and Local	274.3	7.9	4.1	9.3
Federal	359.3	10.4	None	None

Source: FPC Bulletins and 1947 TVA Annual Report.

The 20th Century Fund study disposes of the yardstick myth quite effectively.

"As we have seen, Federal and state power projects cannot provide simple yardsticks for the appraisal of the rates of private systems. Conditions of production and distribution differ so widely between the two, and from place to place, that accurate allowances for these differences are impossible. Public projects enjoy advantages over private industry, such as freedom from the risk of insolvency, or responsibility to stockholders for mistakes of management. A regional development authority like the TVA can also alter the economic conditions in its territory. Its experience, however, no matter how qualified, cannot indicate the reasonable costs or rates for privately owned utilities."[6]

Financing

Financing the large expansion program is now one of the principal preoccupations and occupations of the utility managements. In recent years the financing has been largely for refunding purposes as shown by the following data in the March, 1948 Federal Reserve Bulletin. Note the large increase in "new money" in 1947.

USE OF PROCEEDS OF SECURITY ISSUES OF THE UTILITY INDUSTRY

(In millions of dollars)

Year	Total Net Proceeds	New Money	Retirement of Securs.	Other Purposes
1934	$130	$11	$77	$42
1935	1,250	30	1,190	30
1936	1,987	63	1,897	27
1937	751	89	611	50
1938	1,208	180	943	86
1939	1,246	43	1,157	47
1940	1,180	245	922	13
1941	1,340	317	993	30
1942	464	145	292	27
1943	469	22	423	25
1944	1,400	40	1,343	17
1945	2,291	69	2,159	63
1946	2,129	785	1,252	93
1947	3,121	2,122	923	76

In 1947 about half of all private venture financing was done by the utilities including the telephone companies. Of the $4.1 billion total $2.8 billion was represented by bonds, $400 million by preferred stock and $900 million by common stock (68%, 10% and 13%). Of the total financing only $700 million (17%) was purchased by individuals — 73% was purchased by the life insurance companies and only .4 of 1% by commercial and savings banks.[7]

In the first quarter of 1948, the total financing of the electric utilities amounted to $305 million of which 83.3% was bonds, 8.5% preferred stock and 8.2% common stock.

Most utilities have substantial borrowings power under existing mortgages and many have considerable leeway in preferred stock issues. However, the desirability of maintaining large common stock equity positions is so clear that every effort should be made to secure as much equity capital as possible. Nevertheless, regulatory agencies will have to consider that stubborn adherence to preconceived capital ratios may result in substantial injury to equity investors. Anyhow, the matter of capital ratios has been given too much weight in judging individual situations. The insistence of SEC to write these ratios into charters as a basis for dividend payments has been one of the most regressive regulatory policies which has been invoked in the last decade. To me it is inexplainable that a commission which has generally been reasonable should go along with such folderol. I recognize that corrective measures are frequently desirable but the charter is no place to secure them.

It seems clear that the utilities will be able to sell bonds under existing mortgages and within reasonably narrow limits of sound capital structures, which, together with funds generated by non-cash items in the income statement, will pay for about 70% of the construction presently contemplated.

The sale of preferred stock presents a somewhat different picture. Institutional buyers seem to have developed considerable resistence to preferred stocks and we have seen that private investors are not large purchasers of preferred. It may be that considerable selling effort will be necessary again to develop a market for the once popular class of utility securities. I hope that whatever device is used. that it will not be a customer-ownership device. In this connection, the comments about competitive bidding in connection with common stocks are especially applicable at this time.

We have shown that only about 10% of the electric utilities expansion program will be financed through the sale of common stock. Over the next 4½ years, this will involve about $600 million—but this piece is more important than the size would indicate. It is the piece that makes the sale of bonds and preferred stocks possible—a breakdown here could very well mean a breakdown of the entire program. That is why adequate earnings are important— remembering that utility equities compete with all other equities—and the earnings of other equities have never been so high. I am convinced that, fundamentally, nothing adverse has happened to the utilities but their earnings suffer by comparison with the gains made by industrial earnings. Earnings for electric utility equities have improved in recent years but earnings of other equities beginning in 1946 gained so much that, by comparison, the utilities seem bad. The fact is that by nature their earnings are moderate, but, in that, they had great appeal since they would hold up, as they did, in depression periods. With investment accent on capital gains, the prospect seems brighter for the industrial and trade equities. Thus, the emphasis has shifted and at the moment utility equities seem to be out of favor as shown by the following data in the March 1948 Federal Reserve Bulletin:

FEDERAL RESERVE INDEX OF STOCK PRICES (1935-1939=100)

	Industrial		Public Utility	
1947	Index	Deviation of Index from 1946 Average	Index	Deviat'n of Index from '46 Average
Feb.	133	10	111	9
March	128	15	107	13
April	123	20	105	15
May	119	24	102	18
June	124	19	101	19
July	132	11	102	18
Aug.	130	13	101	19
Sept.	128	15	102	18
Oct.	131	12	101	19
Nov.	130	13	97	23
Dec.	129	14	94	26
1948				
Jan.	126	20	95	25
Feb.	119	24	93	27
March	*125	18	*94	26

*Week ending March 27.

With respect to financing the large conservation program the 20th Century Fund Study says:

"The money which is needed to finance this growth so imperatively demanded must come in the first instance from investors. If it is not thus provided, either the needed expansion will not occur and the public will suffer from its lack, or it will be provided from the only other source available—the public treasury. This is not a recourse to be lightly imposed. The result of huge expanded governmental investment in this quasi-private enterprise might easily be its forced transformation into a wholly public enterprise, under conditions highly unfavorable for so radical a change even if such a development were wholly desirable as a product of ordered and considered political evolution.

"Taxation which reduces returns to investors to or near the vanishing point has, then, consequences which go beyond the immediate effect upon the investor—and upon the personal income taxes which he would otherwise pay to the government. Not only are market values sharply reduced but corporate credit suffers. Not only does it become practically impossible to raise further capital by inducing stock investment but borrowing capacity is also affected.

"The public utility, moreover, cannot restore the balance by freely raising its rates, for these are regulated by public authority. In theory, regulation should permit a utility to receive from its consumers who are its only source of revenue, its operating expenses and depreciation allowances, plus 'profits' which represent the reasonable and necessary cost of capital. This is not necessarily what is customarily spoken of as a 'fair return'. It is something which can be determined neither by economic reasoning nor by commission fiat. It is, at any given moment, the amount of which an investor demands reasonable assurance before he will consent to risk his capital. The investor who sees that taxes will not leave for distribution by the corporation net earnings which will permit him the return which he regards as fair, simply will not risk his money. The needed capital must be found elsewhere if it is to be found at all."[8]

In this connection I cannot resist urging the Securities and Exchange Commission and the State Commissions, where applicable, to abandon their requirements for competitive bidding for preferred and common stock issues. The device served its purpose in a sellers' market. I cannot say that it does not now work as to bond issues. I do say it is injuring investors and consumers when required for preferred and common stock issues. This job of financing the utilities is primarily management's responsibility but regulatory commissions have an interest too—so do consumers—for, if the equity capital is not forthcoming, the expansion will not occur. If the sale of equities is difficult, the pressure to issue debt securities will become great and much of the ground gained by way of capital ratio improvement will have been lost. I therefore urge upon the SEC that it publicly announce abandonment of the requirements of competitive bidding as to preferred and common stocks or in the alternative give the industry an opportunity to present its objections in a public hearing. I am convinced that to do this would be a matter of regulatory statesmanship and that no one single thing will have such beneficial effect on the utility preferred and common market.

Nor can I resist quoting again from the 20th Century Fund study (Page 777):

"The operating electric (and gas) utilities of the United States need capital to meet the need for their service. In the past the holding company has been a major source through which new equity capital has been supplied to the operating companies. Whatever the weaknesses of this method, as to many operating utilities no satisfactory substitute has yet come into existence. Yet the parent company is itself subject to the threat of what the market currently interprets as a genuine 'death sentence.' As things stand, it finds the greatest difficulty persuading the investment market to provide it with capital; and, upon obtaining the capital, faces at least two major deterrents from supplying it to the subsidiary. There are: (1) the possibility that it may be compelled to dispose of the very subsidiary which most needs its help; and (2) the danger that its existing investment in the subsidiary will be reduced in value by subordination or some other device to accomplish equitable distribution of voting power and to bring senior capitalization in line with Commission standards. It seems clearly desirable that if funds can be found for advancement to subsidiaries to help meet the present emergency, the Commission might well give its assurance that it will give such new money adequate protection; for example, against the claim that its advance merely tended to 'sweeten' an actually non-existent equity.

"Where new equity capital is unobtainable or is not justified by existing conditions, and yet new money must be had, it seems clear that the pressure toward capital structures with a relatively rigid ratio of common stock to senior securities must, as the Commission (SEC) in its more recent decisions seems to have recognized, be relaxed. If the new money is really needed and cannot otherwise be had, investment in senior securities, to whatever degree is shown to be needed, must be permitted, with such safeguards as to amortization or call as in the opinion of the Commission will bring the ratio to any desired level when, over a period of time, market conditions permit. In extreme cases, however, enforced reorganization of the company's existing capital structure should be considered as a preferable alternative to the grant of permission for further borrowing.

"Indeed, flexibility as to every preconception is necessary if the administrative process is to be effective."[9]

Of course in the final analysis, the attitude of the public will determine whether the financing program will be carried out under duress of unenlightened regulation. And "in part that depends largely upon the industry itself, upon its willingness to discipline itself, to avoid the repetition of the evils of the comparatively recent past, and the pitfalls which tremendous power resulting from the control of vast aggregations of capital places before the feet of the best-intentioned men. In part, it depends upon the devising of a system of regulation which will control without unduly hampering initiative, and will reward imagination and efficiency. And finally, it will depend upon the realization of the public that neither here nor elsewhere can it get something for nothing. It cannot get taxes which cripple the industry. It cannot get service without paying reasonably for it. It has a right to fair treatment and to the lowest rates which efficiently managed virtual monopoly can possibly give it. But it has no right to more."[10]

Conclusion

I wonder then, if the appeal of stability isn't something for you to reconsider with respect to utility equities. I wonder if the concern over our revenue/cost relationships hasn't been overemphasized. I am under no delusions about the difficulty we will encounter in getting the equity capital. Some companies with thin equities may find the process most painful. Some regulatory agencies will have to revise their security ratio ideas and some commissions will have to revise their ideas of returns necessary to attract capital. In the future when applications for rate increases become more widespread, regulatory commissions should consider the competitive position of utility equities. I know that the accent in investment policy at the moment is on capital gains. But the utilities have much to offer. We sell the largest mass commodity at the lowest cost. What we sell is a necessary part of our lives. We haven't even reached the horizon of our usefulness in the American economy. We have, during the depression years, been able to sell our services in an increasing amount. New uses for our products are developed every day. As prices of coal and oil advance our competitive position improves and in fact is now quite substantial. We have demonstrated our resourcefulness and ability to develop the industry. Our search for economies is relentless. Our stable earning power is a matter of record. When we reach a period of deflation, the revenue/cost relationships which are now out of line will begin to work in our favor. It may very well be that at the moment, we, as an industry, are in an awkward position to raise equity capital but you will find upon examination that many utility equities are excellent income producers. When the economic fog in which all equities are floundering begins to lift, you may also find that many utility equities have excellent appreciation opportunities.

5 Ibid, page 675.
6 Ibid, page 678.
7 U. S. Department of Commerce Bulletins.

8 Page 745, Electric Power and Public Policy—20th Century Fund (1948).

9 Page 777, The Electric Utilities and Public Policy — 20th Century Fund (1948).
10 Page 779, The Electric Utilities and Public Policy—20th Century Fund.

Reports April Business Slightly Improved Despite Coal Strike

Business Survey Committee of National Association of Purchasing Agents, headed by Robert C. Swanton, says, though inventories declined, buying policy is now geared to definite production requirements, with prices "spotty."

A composite opinion of purchasing agents who comprise the Business Survey Committee of the National Association of Purchasing Agents, whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Corporation, New Haven, Conn., is that April showed a slight improvement in general business if the retarding effects of the coal strike are discounted. Production, it is stated, has nearly regained its losses of March, though still below the January level. Backlogs of orders, too, have reversed the February and March trend and show a tendency to increase. Apparently, many buyers found inventory positions falling below reasonable operating requirements, because of the generally supercautious commitment policy following the February commodity market break; also, a feeling of more confidence in demand has been generated by tax reduction, European aid and National Defense programs. While little new contracting can be traced to these factors, there are much inquiry and planning which are expected to result in substantial new business.

Robert C. Swanton

A brake on the new note of confidence is the realization that full impact of the coal strike has not yet been felt and another drop in over-all production must be anticipated from shutdowns for Summer vacations. Caution is still very advisable.

Commodity Prices

The April price situation can be called "spotty." In number, the items advanced are about balanced by those showing declines. In the latter category are materials running to easier supply and some fabricated items now seeking buyers on a competitive basis. On the whole, prices appear to be firming up over March.

Inventories

Industrial inventories continue to decline in April. Some of this is due to deferred deliveries of materials caused by the coal strike. Others are letting stocks run down to correct imbalance with other materials, such as steel, where shortages and delayed deliveries are anticipated. In general, inventories are reported to be about as low as possible to maintain present production schedules. Some purchasing executives report that, in view of high prices and threats of government control of critical materials, they would prefer to take a chance on being short, rather than overbought.

Buying Policy

In line with the new confidence expressed in general business, the slight uptrend in backlogs and the low inventory position, buying policy has expanded a little this month. 91% report being within a 90-day commitment limitation, compared to 95% holding to that position in March. A very small amount of additional future coverage is reported because of fear of government controls or allocations for the Marshall Plan and National Defense. Buying policy appears to be geared to definite production requirements.

Specific Commodity Changes

The most important price advance this month is the 2½c increase in lead, carrying with it increases in most lead products. Otherwise, markets remain generally firm.

Increases reported: Ammonia, bottle caps, brass and bronze castings, calcium carbide, coal, coal-tar chemicals, die blocks, glass, glue, hides, leather, edible oils, phosphates, platinum, rubber, salt cake, steel wire, zinc oxide.

Decreases noted: Cornstarch, corrugated cartons, gloves, some lumber, menthol, mercury, nutmeg, waste paper, paint thinner, pulleys, rosins, soap, steel wool, sugar, textiles, truck tires.

In more plentiful supply: Building supplies, fractional h. p motors, fatty acids, fuel oil, many grades of paper and paperboard waste paper, paints, polystrene soda ash, screw products, thermoplastic materials.

Still hard to get: Aluminum copper, lead, zinc, steel. Also burlap bags, malleable iron castings, chain, chromic acid, coal, coal-tar products, steel drums good grades of lumber, nails nickel salts, pipe, tin, titanium dioxide.

Employment

The down-trend in employment continued in April, though the decline is not as sharp as in March Much of the unemployment is attributed to the coal strike. Further layoffs and shorter running time are anticipated from the same cause. Unskilled labor is reported available in several areas. Turnover is lower; production efficiency is higher. A man with a good job is trying to protect it.

Canada

General business in Canada is holding steady, becoming more competitive—buyers resisting high prices — prices and inventories static. Employment trend continues down. Buying policy "hand-to-mouth" to 90 days.

So. Calif. Investment Counselors Elect

PASADENA, CALIF. — At its 11th Annual Meeting held April 19 at the University Club of Los Angeles, the Investment Counselors' Association of Southern California elected the following officers for the coming year:

President — Thomas D. Sears, Santa Barbara.

Vice-President — W. Murray Hawkins, Los Angeles.

Secretary-Treasurer—Harlan B. Robinson, Pasadena.

Each of these officers was also elected to serve on the Board of Governors for 1948-49. Other members elected to the Board were C. Melvin McCuen and J. H. Zucker, both of Los Angeles.

John C. Gotschall of Santa Barbara, and Albert Waycott, II of Los Angeles were welcomed as new members of the association.

N. Y. Curb to Close Sats. During Summer Months

The New York Curb Exchange will be closed on Saturday during the summer months, commencing on May 29 and through June, July, August and September, the exchange weekly bulletin announces.

Halsey Stuart Group Offers Terminal Bonds

Halsey, Stuart & Co. Inc. and associates offered to the public April 28, subject to Interstate Commerce Commission authorization, $4,833,000 The Union Terminal Co., Dallas, Texas, first mortgage 3% bonds, due June 1, 1978 at 100 and accrued interest. Award of the bonds was won at competitive sale on a bid of 99.411.

Net proceeds from the sale of the new bonds will be used to retire a similar amount of 3¾% first mortgage bonds due Feb. 1, 1967.

The new bonds may be redeemed any time on at least 60 days' notice at prices scaled from 103⅛% to 100%. Through operation of the sinking fund beginning June 1, 1949, the bonds may also be redeemed at 100%.

The Union Terminal Co. was incorporated in 1912, for the purpose of the construction, maintenance and operation of a terminal railway, in and about the City of Dallas. The company now owns the Union Passenger Station in the city, together with a coach yard, engine house and shop, power plant, and other improvements. It also owns or holds under User Contracts, connecting tracks and tracks for the movement of through traffic outside the Terminal.

The eight railroads which are parties to an operating agreement, as supplemented, and which have access to the properties of the Terminal Co. over their own tracks or over the tracks of other railroads under various trackage right arrangements are: The Texas and Pacific Ry.; Texas and New Orleans RR.; Gulf, Colorado and Santa Fe Ry. Co.; Missouri-Kansas-Texas RR. of Texas; Fort Worth & Denver City Ry.; St. Louis, San Francisco & Texas Ry.; St. Louis Southwestern Ry. of Texas; and Chicago, Rock Island & Pacific RR.

Cleveland Stock Exch. In New Quarters

CLEVELAND, OHIO.—The Cleveland Stock Exchange on Monday, May 3, will celebrate the occupancy of its new quarters at 410 Union Commerce Building, according to an announcement by Richard A. Gottron, Gottron, Russell & Co., President of the Exchange.

The new quarters were formerly used by the old Union Trust Bank and are immediately adjacent to space occupied by the Cleveland Chamber of Commerce. The entrance lobby and the trading floor are done in beautiful panelled teak wood. It is believed that the Exchange will have the most efficient lighting of any trading room in the country with latest available fluorescent lighting not only on the board but throughout the premises.

A further innovation is the adoption by the floor traders of steel executive desks instead of the old-fashioned standing height desks and booths.

It is expected that there will be present for the official opening party on May 3, William G. Mather who served as first President of the Exchange in 1900, Charles Otis who was its second President and Will S. Halle who joined the Exchange on Jan. 18, 1901 and is its oldest active member.

Gude, Winmill Changes

Robert H. Radsch will retire from partnership in Gude, Winmill & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, on April 30. On May 1, Virginia W. Radsch will be admitted to limited partnership in the firm.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Despite slightly less activity due in part to the attitude of some investors of let's wait and see what happens to the certificate rate, the government market continues to display a firm to buoyant tone. . . . The longer end of the bond list is still getting most of the play, because investors are either moving out of near-term maturities into the higher income issues or they are putting uninvested funds into these securities. . . . Short covering by traders and dealers has helped to improve the action of the longer eligible obligations. . . .

The ineligible bonds, especially those issues that are closest to the 100 level, have been getting more and more attention, because they are being looked upon as "demand obligations" with a much better return than is available in the short maturities. . . . It is being pointed out that the money managers are determined to maintain the "pegs." . . . Accordingly, why should funds be put into lower income shorts, when one can do so much better in the taps? . . . Earning still appeals to some investors. . . .

TREASURY PURCHASES

Treasury purchases of government securities during March amounted to more than $106,000,000, with indications that the Federal Old-Age and Survivors Insurance Trust Fund were the main buyers of these obligations. . . . Holdings of marketable Treasury obligations of this Trust Fund increased last month by close to $105,000,000. . . . All of the bonds taken on were ineligible issues. . . .

The largest commitment was made in the 2½% due Dec. 15, 1967/72, which amounted to almost $41,000,000. . . . The 2½s due June 15, 1967/72 were next with purchases somewhat in excess of $33,000,000, while the 2½s due March 15, 1965/70 followed with nearly $20,000,000 being required. . . . June and December 2½s due 1964/69 were taken on in an amount in excess of $6,000,000 with the remainder of the commitment being made in the 2½% due Dec. 15, 1963/68. . . . These purchases were slightly more than $4,000,000. . . .

YIELD ADJUSTMENT

Yield curves based upon a 1¼% rate for certificates of indebtedness are being worked over, in order to find out how much of an adjustment is likely to take place in yields and prices of Treasury obligations. . . . The shorts and certain of the intermediate-term bonds would have a minor altering of their "pegged" prices, with higher near-term rates. . . . This would be necessary in order to produce returns that would be in line with the new yield curve. . . .

WORLD BANK BONDS

Secretary of the Treasury Snyder's recommendation to the Congress that steps be taken to improve the marketing and marketability of World Bank bonds, had a favorable effect upon these securities. . . . This action of the Treasury Secretary seems to indicate that the government has not lost any of its interest in these obligations. . . . Financing by the World Bank in the future, as is forecast by Secretary Snyder, should not have an unfavorable influence upon outstanding issues. . . .

There are many in the financial district that regard the World Bank bonds very highly and they have been and still are taking on these securities for income purposes. . . . The market for World Bank bonds has improved substantially in the last few months, because these securities have been going into strong hands. . . .

BILL RATE RISE EXPECTED

The short and intermediate section of the government bond market is getting the bulk of the attention now because of the belief that changes are imminent in the certificate rate. . . . A new pattern of short-term rates is believed by many to be in the making with predictions that the bill rate could eventually move up to about 1.10% after the one-year rate goes to 1.25%. . . .

Higher short-term rates, accompanied by a rise in the penalty rediscount rate, would mean an upping of the over-the-counter rate. . . . The large banks would be the principal beneficiary of such developments as they have been since the upward revision has taken place in the general level of interest rates. . . . The smaller banks, which were much more mortgage-minded, have in many instances had their fill at least for the time being of this type of investment. . . . But they have funds that must be put to work and the return in shorts is still not substantial enough for their needs. . . . Accordingly they are going into the longer end of the government market, with the most distant taxable issues getting the bulk of these purchases. . . .

INSIDE THE MARKET

Insurance companies, according to reports, have sold a few more of the tap issues, evidently for the purpose of completing private placements. . . . While there is considerable corporate financing to be done especially in the public utility field, sales by non-bank investors of government bonds are now being made only to cover commitments as they are being made. . . .

Switching continues to be important in the government market with some banks still moving from the 2½s due 1956/58 into the 2½s due Sept. 15, 1967/72. . . . Southwestern institutions have been very prominent in this deal. . . . Scattered buying by out-of-town, non-bank investors is indicated in the 2¼s due 1959/62. . . . Also the 2¾% due 1960/65 have again been under accumulation by the large banks.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The appointment of Henry M. Sommers as Assistant General Counsel of the **American Bankers Association** and Assistant to the Executive Manager, is announced by Dr. Harold Stonier ABA Executive Manager. Mr. Sommers has been with the legal department of the American Bankers Association since 1939, and succeeds the late Liston C. Bertram in the two offices. He has a banking as well as a legal background in that he was associated with a commercial bank prior to receiving his law degree. He was admitted to the bar in 1929 and conducted a law office in New York City for the general practice of law. It was to assist in research, writing, and editing of the fourth edition of "Paton's Digest" that Mr. Sommers came to the American Bankers Association. Upon completion of the assignment, he accepted a permanent appointment as an attorney in the Association's Legal Department.

* * *

William McKinley, Trust Officer of **Bankers Trust Co. of New York**, has been named Chairman of the Board of Trustees of the Big Brother Movement of Greater New York, it was announced on April 25. He succeeded Archie O. Dawson of Dorr, Hammond, Hand & Dawson, who has served as Chairman of the board for the past 14 years. Earle S. Thompson, President, West Penn Electric Co., and Raymond Korndorfer, insurance executive of the Bronx, were re-elected Treasurer and Secretary respectively. Mr. McKinley, who has been associated with the organization for the past six years served last year as President of the Manhattan Borough group, and is currently Chairman of the emergency campaign for $52,000 which is being conducted to supplement gifts from regular contributors which have become insufficient because of rising costs.

The Big Brother Movement began in New York in 1904 and currently comprises 911 active business and professional men who serve as "big brothers" to delinquent or neglected boys in four boroughs — Manhattan, Bronx, Brooklyn, Queens. Through personal assistance the men attempt to interest them in club activities, sports, handicrafts, and other hobbies and provide vocational guidance. The organization supports a summer camp at Stillwater, N. J., and maintains headquarters at 207 Fourth Avenue, with branches in Bronx, Brooklyn and Queens.

* * *

At the Pan American dinner of the Round Table Club, held at Hotel Bradford, in New York, on Wednesday evening, April 21, the principal speaker, Arthur S. Kleeman, who is President of **Colonial Trust Co. of New York** and a director of The Bolivarian Society, spoke on the importance of aiding Latin American countries to broaden their markets for their natural products, as a means of creating dollar exchange, the subject of Mr. Kleeman's address was "Don't Leave It All to the Government!" At the dinner each lady received an orchid brought by Linea Aeropostal Venezolano, the Venezuelan air line—the transporting plane taking off from Caracas just eight hours before the guests were to gather. Honored guests were Dr. Amanda Labarca, Head of Women's Activities of the United Nations, Mrs. Rita Halle Kleeman, Mrs. William Dick Sporborg, U. S. Delegate to UNESCO, Mrs. Vera Beggs, Mrs. Kenneth S. Strayer, President of New York State Federation of Women's Clubs, and Mrs. Le Roy S. Edwards, President of New York City Federation of Women's Clubs.

* * *

Guaranty Trust Co. of New York announces the appointment of Howard C. Judd as a Trust Officer at the main office. He has been associated with the company for 20 years and with his new appointment continues with the Person Trust Division, where he has been an Assistant Trust Officer since September, 1943.

* * *

Arthur S. Kleeman, President of **Colonial Trust Co. of New York**, has announced the appointment of Miner M. Taylor as an Assistant Vice-President at the Midtown Office of the bank, Madison Avenue at 28th Street. Mr. Taylor will assist J. S. Everts, Vice-President in charge of that office, in the handling of the bank's international business in that area. Mr. Taylor was for many years with Bankers Trust Co.

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TITLE GUARANTEE AND TRUST COMPANY OF NEW YORK

	Apr. 12,'48	Dec. 31,'47
Total resources	$55,030,589	$60,634,666
Deposits	45,648,414	51,218,356
Cash and due from banks	12,776,373	13,233,530
U. S. Government Security holdings	20,209,316	24,239,751
Loans & bills disct.	14,795,815	13,167,603
Surplus and undivided profits	3,921,549	3,991,116

* * *

LAWYERS TRUST COMPANY OF N. Y.

	Apr. 12,'48	Dec. 31,'47
Total resources	$79,046,023	$84,856,144
Deposits	72,737,266	78,505,601
Cash and due from banks	20,847,437	22,333,887
U. S. Government Security holdings	42,732,062	45,068,398
Loans & bills disct.	13,021,682	14,236,824
Undivided profits	1,213,893	1,110,560

* * *

Irving Trust Company of New York announces the election of August Maffry as Vice-President. His prior connection was with the Export-Import Bank of Washington where he served as Vice-President and Economic Advisor. Mr. Maffry received his A.B., M.A., and Ph.D. at the University of Missouri, with part of his graduate work done in Germany and France. For over 10 years he was connected with the U. S. Department of Commerce, during which time he served with a number of important international commissions. As Vice-President and Economic Advisor of the Export-Import Bank he was in charge of the Bank's economic staff and responsible for its loan negotiations.

* * *

James R. McLaren, President, and a trustee of the **Kings County Savings Bank of Brooklyn, N. Y.**, died of a heart attack on April 23. He was 67 years of age. In reporting Mr. McLaren's death the Brooklyn "Eagle" of April 24 said in part:

"He was elected President of the Kings County Savings Bank in 1944. He was named a member of the bank's board of directors in 1928 and to the bank's finance committee in 1936. Later he was elected a Vice-President. From 1934 to 1936 he served on the bank examining committee."

The same item stated:

"A native Brooklynite, Mr. McLaren was head of the James R. McLaren & Sons Co., stone-cutting firm for many years, and was a former President of the Greater New York Cut Stone Contractors Association.

* * *

Ralph M. Binney has been named Vice-President of the **First National Bank of Boston** according to the Boston "Herald" of April 23, which states that he was formerly Vice-President in the foreign division. Frederick C. Wells was named Assistant Vice-President; Perry D. Keating, Assistant Manager of foreign division.

* * *

The **Mechanics National Bank of Worcester, Mass.**, has marked its 100th anniversary with a brochure briefly noting the event. In citing certain distinctive aspects of the institution, it says, among other things:

"The name 'Mechanics' connoted a century ago an awareness of the transition from the early agricultural, fishing and maritime economy to the industrial—'mechanical' preeminence which our area enjoys today."

The institution was incorporated on April 21, 1848, as the Mechanics Bank. In 1864, following the passage of the National Bank Act, the bank surrendered its State charter in exchange for a Federal charter under its present corporate title, the Mechanics National Bank of Worcester.

* * *

The resignation of Lawrence B. Carey as New Jersey Commissioner of Banking & Insurance to become Executive Vice-President of the **Trust Company of New Jersey, in Jersey City**, was made known on April 22. According to the "Newark News" the move was disclosed that day by Governor Driscoll and Paul Bestor, President of the trust company. Mr. Carey's resignation is effective May 1. He had been with the **Irving Trust Co. of New York** until 1935, when he resigned as Assistant Vice-President to take the Presidency of the **Plainfield National Bank.** In his new post in Trust Company of New Jersey, Mr. Carey will succeed Arthur M. Mueller, who remains a Vice-President.

* * *

E. Donald Hayes, Vice-President and Secretary of the **Mellon National Bank & Trust Co. of Pittsburgh**, died on April 20. He was 51 years of age. In the Pittsburgh "Post Gazette" of April 21 it was stated:

"Mr. Hayes entered the employ of the **Union Trust Co.** of Pittsburgh as a messenger in February, 1915, became Assistant Secretary in March, 1930, Secretary in 1935, and Vice-President and Secretary in 1936. At the time of the merger of the Union Trust Co with **Mellon National Bank** in September, 1946, he was elected Vice-President and Secretary. A specialist in corporate trust work Mr. Hayes served on various committees of the Corporate Trust Division, American Bankers' Association."

* * *

The election of Charles M. Miller as Executive Vice-President of the **Provident Savings Bank of Baltimore, Md.**, and as a director of the institution, was announced on April 21. At the same time the directors at their annual meeting elected George H. French to the bank's board. Mr. French is President of the Maryland Drydock Co. It is also learned from the Baltimore "Sun" of April 22 that Mr. Miller joined the Provident Savings Bank in February, 1946, as Assistant to the President, and was elected a Vice-President at the annual meeting last year.

* * *

The board of directors of **The Northern Trust Co. of Chicago** announced on April 20 two staff changes. Norman McClave was promoted from Assistant Secretary to Second Vice-President, and Robert L. Fisher was elected Assistant Secretary. Both are officers in the trust department. Mr. McClave joined the bank in 1934 in the Messenger Division following graduation from Princeton University. Mr. Fisher became associated with the bank in 1941 following 13 years' experience with banking and insurance.

(Continued on page 37)

Public Utility Securities

Financing the Utility Construction Program

President Tegen of General Public Utilities recently delivered a talk before the Analysts Club of Chicago on the "Outlook for the Electric and Gas Utilities." [Full text of article on page 6.] Commenting on the manufactured gas companies he pointed out the anomaly that, while operating expenses comprise 69% of the income dollar as compared to 52% for the electric utilities' dollar, the gas utilities have not widely adopted the fuel clause adjustment feature in their rate structures, though some are now trying to do so.

Commenting on 1947 financing, he stated that about half of all private venture financing in 1947 was done by the utilities, including the telephone companies. Of the $4.1 billion total $2.8 billion was represented by bonds, $400 million by preferred stock and $900 million by common stock (68%, 10% and 22% respectively). Of the total financing, only $700 million securities (17%) were purchased by individuals; 73% were bought by the life insurance companies, and only 0.4 of 1% by commercial and savings banks.

In the first quarter of 1948, the total financing of the electric utilities amounted to $305 million, of which 83.3% was in bonds, 8.5% in preferred stock and 8.2% in common stock.

Commenting on common stock financing for construction, estimated at about $600 million over the next four and a half years for the electric utilities, Mr. Tegen stated: "This piece is more important than the size would indicate. It is the piece that makes the sale of bonds and preferred stocks possible—a breakdown here could very well mean a breakdown of the entire program. That is why adequate earnings are important—remembering that utility equities compete with all other equities—and the earnings of other equities have never been so high. I am convinced that, fundamentally, nothing adverse has happened to the utilities but their earnings suffer by comparison with the gains made by industrial earnings.

"Earnings for electric utility equities have improved in recent years but earnings of other equities beginning in 1946 gained so much that, by comparison, the utilities seem bad. The fact is that by nature their earnings are moderate, but they had great appeal since they would hold up in depression periods. With investment accent on capital gains, the prospect seems brighter for the industrial and trade equities. Thus, the emphasis has shifted and at the moment utility equities seem to be out of favor as shown by relative trends of stock prices."

Mr. Tegen urged the abandonment of competitive bidding requirements for preferred and common stock issues. "I therefore urge upon the SEC that it publicly announce abandonment of the requirements of competitive bidding as to preferred and common stocks, or in the alternative give the industry an opportunity to present its objections in a public hearing. I am convinced that to do this would be a matter of regulatory statesmanship and that no one single thing will have such beneficial effect on the utility preferred and common market."

George D. Woods, Vice-President of First Boston Corp., in a recent talk before a gathering of utility executives at Boca Raton, also condemned the use of competitive bidding under present market conditions, especially for preferred and common stock issues of utility companies. Many preferred stock issues have failed to attract bids during the past year, or have proven difficult to sell despite a sharp increase in dividend rates on these issues. Mr. Woods advocated a change in the system so that sales could be made over a period of time by groups of local banking houses, without underwritings. Leadership would be furnished by large investment houses which would investigate the issue, prepare selling literature, etc.

Export-Import Bank Sets Up Japanese Credit

Participates with group of commercial banks to extent of $29 million in $60 million revolving credit

The Board of Directors of the Export-Import Bank of Washington on April 21 authorized participation to the extent of $29,000,000 by the Bank with a group of commercial banks in a $60,000,000 revolving credit in favor of the Occupied Japan Export-Import Revolving Fund to finance the purchase and exportation to Japan of United States cotton, including cotton linters and waste. The credit will not become operative until the agreement has been executed both in the United States and in Japan.

Establishment of the credit resulted from discussions between the Department of the Army, Washington, D. C., acting on behalf of The Supreme Commander for the Allied Powers (SCAP), and commercial banks of which have branch offices in Japan.

The Occupied Japan Export-Import Revolving Fund was established by The Supreme Commander for the Allied Powers (SCAP) for the purpose of providing a credit base and a means for financing, primarily on a self-liquidating basis, Japanese imports and exports of commodities and services which are required for the achievement of the objectives and policies of the Occupation, and accordingly transferred to The Fund and its Controller gold valued at approximately U. S. $104 000,000, silver valued at approximately U. S. $18,000,000 and cash U. S. $378,000.

The cotton to be financed under the credit will be purchased by means of bank letters of credit, opened upon application of the Controller of The Fund in favor of U. S. cotton shippers. The Controller may furnish notes maturing from 30 days to 10 months from the dates of payment of shippers' sight drafts with interest payable at rates varying from 2½% to 3½% per annum.

It is expected that 40% of the textiles processed from the cotton financed under the credit will be consumed in Japan and that the remaining 60% will be sold in the customary prewar Japanese export markets for dollars or currencies convertible into dollars.

The Supreme Commander for the Allied Powers (SCAP) considers that this cotton financing program will be of major assistance in furthering the rehabilitation of the Japanese cotton textile industry, an important element in the Japanese economy, not only in the employment of labor but also the prevention of disease, unrest, etc. The credit, no doubt, will constitute an important step forward in restoring Japan to a self-sustaining basis.

Western Germany: Portent of Europe's Economic Future

(Continued from first page)

the three western zones of Germany.

Since 1945, German unity in the political sense has ceased to exist and no good can come from further ignoring this brutal and ugly fact. It can now exist only as a cultural and moral ideal for the Germans and as a political aim for the future. In that sense the door certainly ought to be left open, but that can hardly mean more than a standing invitation to the Russians to join the liberal part of Germany by submitting to her principles and—what is more practical—a policy in Western Germany which makes it increasingly more difficult for the Russians to suppress the desire of the Eastern Germans to accept that standing invitation.

It may be safely assumed also that the enormous political implications of this political and economic reform of Western Germany are now widely understood. It is being recognized as unrealistic and anachronistic to persist in worrying about Germany as the potential new aggressor. The only question is whether this central country of Europe will be a *bridge* or a *dam*: a bridge for the invasion of Western Europe or a dam against it. Whether it will be finally the one or the other depends on whether the Western powers succeed or not in resuscitating the paralyzed economy of their proper zones and in thus giving a convincing example to the East.

Almost three years ago, I wrote in the first Swiss edition of my book, "The Solution of the German Problem," that it would be the unwavering policy of the Russians to infiltrate by all possible means into Western Germany and, by extending their influence over that territory, to establish themselves as masters of Europe. In order to forestall this, I said that Western Germany should be organized politically and economically in such a way as to make her part of a large Western Union. Many people did not understand me at that time and I remember that the London "Times" rebuked me gently for my russophobia. But, today, everyone can see that this course has become almost inevitable and the first steps have already been taken in this direction.

Such a reconstruction of Western Germany with her economic and political integration into a Western Union is, of course, compatible with all imaginable measures of security, including a special status for the Ruhr district and the holding of large forces of the Western powers on German ground. But, on the other hand, it seems ridiculous to think of the economic reconstruction of Western Europe, and to spend for it good American dollars, if the largest single industrial district of Continental Europe, i.e., Western Germany, will not be made an essential part of the program of recovery—and if there the right steps will not be taken to lead her to economic recovery.

Western Germany and the Network of European Trade

It cannot be too strongly emphasized that the success of the program of European recovery depends not only on a sounder economic policy of the various countries and on a better coordination of their national economies, but also on the re-integration of Germany (which, for the time being, means, unfortunately, merely Western Geramny) in the network of European trade. It has become all too obvious in recent months that the practical disappearance of Germany as a big buyer and seller is at the root of many of exactly those economic troubles in Europe which the ERP is going to remedy. The elimination of Germany means that in this complex network of Europe one of the essential meshes has been cut so that what we have now resembles very much a disorderly heap of disconnected threads. What is vulgarly being called "the crisis of the balance of payments" of this or that European country or, even more vulgarly, the "dollar shortage," reveals itself more often than not as the unsuspected effect of this economic disintegration of Europe brought about by the destruction of the German link. The external economic difficulties of Sweden, for instance, are not all due to a foolish and doctrinaire economic policy of a socialist government. It would be unfair to overlook what it meant for this country to be cut off from its very close economic connection with Germany and to be forced to adjust its foreign trade and its internal production to a world economy without Germany. Even more eloquent perhaps is the economic situation in *Italy* for which Germany has always been such an extremely important market for selling her agricultural products and for buying her coal or steel that she finds it extremely difficult to get on her own feet again. If Italy has to be kept afloat by good American dollars just as well as Germany, the economic paralysis of Germany and the disconnection of Italo-German trade are heavily responsible for this.

So the United States is paying for the consequences of the German muddle not only in Germany, but also in Italy and elsewhere in Europe. As a matter of fact, the Allied authorities in Germany have been blocking now for almost three years the resumption of trade between Italy and Germany, and recently the Italo-German Chamber of Commerce at Milan had to admit that so far practically none of its 500 members has been able to cope with the difficulties created by Allied bureaucracy in Germany. Here is certainly one of the strategic points for any success of the ERP. European economic recovery means to a very large extent to repair the torn network of European trade by taking up the big German mesh, even if, for the time being, this can only mean the economic reintegration of *Western* Germany.

The Economic Agony of Western Germany

After the economic paralysis of Western Germany and its causes have been explained often enough it would be tedious to go into this matter again. What must be emphasized today, however, is the fact that, in the meantime, the bankruptcy of the system of bureaucratic planning and repressed inflation as practiced in Germany has become complete and that it has led to a situation which is as grotesque as it is utterly untenable. Only a modern Swift could do justice to the consequences of this breakdown of the most thorough collectivist system ever carried through in a highly advanced industrial country. The planning authorities have become so helpless that one is tempted irreverently to compare them to circus clowns who, with comic seriousness, are lifting cardboard weights.

It is indeed difficult to resist this temptation if one hears that the planning authorities have been able to "distribute" in 1947 for the whole population of a large town one single handkerchief which the mayor had the good humor to hand to the municipal museum as a memory for future generations of the age of planning. This story is on a par with another equally well authenticated about the officials of a large country of Western Germany who can justify their pay by the great achievement of having "distributed" during 1947 four sewing-machines among a total population of many millions. Not so long ago the minister of justice of one of these German States told me that the persons imprisoned for dealings on the black market get extra rations with the official explanation that these poor devils, for the time of their stretch, are unable to supplement their rations on the black market.

Some months ago, as a final desperate measure, the Frankfurt authorities tried to deal with the catastrophe of food rationing by sending out new questionnaires to all households in order to hunt for hidden reserves in the private pantries. The joke was so cruel that only an infinitesimal fraction of these forms has been sent back to the authorities; even the docile German finally draws a line. In this connection also, one cannot mention too often recent trustworthy statistics according to which, in an important part of the American zone (Wurttemberg-Baden), the monthly consumption of paper by bureaucracy has been about 1,000 metric tons while newspapers got 32, books 70, and periodicals 500. These tons of paper are symbolical of the way in which the economic life in Western Germany is being suffocated.

On this occasion, it will not be necessary to point out why it is both foolish and futile to make the German farmer the scapegoat of the bankruptcy of the collectivist policy in Germany. Since he is no more a saint than the rest of us in all countries and trades, we can hardly expect him to sell forever his products at official prices which not only mean that he is practically giving them away, but also that he cannot go on producing them since he cannot buy with this paper money what he needs on his farm. The German farmer is in the same position as all others who are compelled to sell their labor or products at the official prices: he finds that it does not pay. When we consider that in Germany today the official prices for farm products are much more below a fair return than in any other country, including Soviet Russia, it appears a marvel that the German farmer is still selling so much at the official prices, much more than his French or Italian colleague.

Instead of demanding from him the impossible it seems more fruitful to realize the utter absurdity of an economic system which, by forcing the producers of the most needed commodities to sell them at the lowest possible prices, puts a premium on *not* producing them. It is an absurdity characterizing every system of "repressed inflation" with its scale of fixed prices, but its utter climax has been reached in Germany. Food is so scarce and essential that a premium should be set on its production, but the official prices mean that practically it must be given away for nothing. Next in importance comes lodging, but in Germany, if you have a room, you live there practically for nothing. But a lady's hat may be freely sold at the equivalent of more than one ton of wheat.

That is the way in which the economy of Western Germany is being "steered" today by collectivist bureaucracy and by a monetary system which has completely gone to pieces. It is an economy which is practically without order and without incentives. The result is: Too little is produced, and the little which is produced is largely not what, in a rational economic order, would have been produced at all or not in this or that quantity; and, finally, this little which is produced is even largely used in the wrong way. That is why—in Germany as in many other European countries, like Great Britain—figures of total national production give a much too favorable idea, and that is why in Germany, behind the facade of some increase of industrial production, economic paralysis and human misery persist.

The Inevitable Reform and Its Pitfalls

What we observe in Germany now is the very end of a disastrous economic policy and after so much time has been lost only the most desperate efforts can save the wreck of the economy of Western Germany. It will not only be a last hour's rescue, but the danger is very real that even now wrong steps will be taken in carrying through the economic reform which everybody recognizes as inevitable. There is good reason to warn against *three main pitfalls.*

The first of these concerns the *monetary reform* which every expert, Allied or German, has come to consider as the essential condition of economic recovery. Here the danger is that the monetary reform — the famous "cut" in the value of the mark — might be used, like the Marshall Plan, for the sole purpose of refloating the stranded ship of collectivism. The real sense of the monetary reform, however, is to make possible again the working of a free system of prices, wages, rates of rents and interest and exchange rates and thus to restore order and incentive which planning has been proved utterly unable to provide.

In order to do this, *three courses* seem to be open. Either we allow, with a number of safeguards and transitory measures prices and exchange rates to find their natural level, which means that we turn the repressed inflation into an open one as in Italy and France. Or we deflate the German currency exactly to such an extent that the present wrong prices and rates become "right" so that they can be left free. Or we follow the Hungarian example and abandon the mark currency in favor of an entirely new one which will be brought into direct relation with the dollar and gold.

Most debates around monetary reform in Germany have so far centered around the second course. It is more and more being realized, however, that, in the absence of a free gold and exchange market in Germany, it is impossible to find the "right" rate of the cut (whether 1:10 or 1:20 or what else). Since every chosen rate of deflation will be absolutely arbitrary the likeliest thing to happen is that even after this monetary reform the "right," i.e., the free and natural, prices and rates will be very different from the present ones, a fact which will be used by the heavy vested interests of collectivism as a pretext for going on with their system of ordered prices and rates. The second course, therefore, can be envisaged only if it is made clear that even after the cut heavy adjustments of prices and rates must be allowed which, to a very large extent, will reflect the degree in which the inflationary surplus of money has not been mopped up by the cut.

It is interesting to note that in Germany the number of those experts increases who, impressed by the foregoing considerations, favor a solution of the third type, i.e., the creation of a new money system brought into a definite relationship to the dollar and gold.

Vicious Taxation Policies

The *second* point I want to make is this. Many observers of the German situation have found reason for some optimism in the fact that, in the absence of substantial budget deficits of the German states, there is no notable increase of the volume of money. The modicum of truth in this statement, however, must not conceal the fact that what budget equilibrium there is in Germany today is due to a *system of taxation* which is perhaps the most oppressive in the world today and which all agree to be simply incompatible with any policy of economic recovery because it punishes industry, initiative and economy in the most deterrent manner.

When the Allies created this system after the war there must have been much rejoicing in Moscow because it is the flat denial of the system of free enterprise. Now if it is already difficult enough to preserve the budgetary balance today with the aid of this anti-economic tax system, and if it is clear that the restoration of incentives as the prerequisite of economic recovery in Germany demands a substantial scaling-down of this taxation, timely provision must be made for a budget equilibrium to be possible, after the reform, in spite of the inevitable reductions in taxation and in spite of some indispensable increase of the aid for the unemployed who must be expected to increase after the reform.

It must be obvious that the problem will be insoluble without a drastic deflation of governmental expenditure in Germany, which means the drastic deflation of bureaucracy, German and Allied, and the reconversion of the surplus of governmental personnel into productive workers.

Unfortunately, instead of decreasing, bureaucracy in Germany is still increasing. This leads me to my *last point of warning,* and here I would like to be most emphatic. For 15 years the real curse of the German economy has been *autarchy, exchange control* and *state monopoly of foreign trade.* To make an end of this system and to let in the fresh air of the outside world into the stuffy German parlor is a goal to be set on top of any program of economic recovery and political education in Germany. Free trade, free exchange markets, private foreign trade liberated from the fetters of bureaucracy, free travels abroad for the German businessman — I know nothing which would be more desirable and more urgent in Western Germany, nothing which would, at the same time, work more favorably on the German mind and to win it definitely for the West. It is all the more regrettable that just the opposite is happening. Instead of applying the principle of free enterprise and economic liberty to foreign trade, the Joint Export and Import Agency (JEIA) at Frankfurt is growing into the most formidable bureaucracy one can imagine and developing a system of state monopoly of foreign trade which far exceeds the National Socialist model and which, in scope and thoroughness, seems to be surpassed only by the Russian system of state trading.

It is most regrettable of all that this is happening under American leadership. Anybody knowing and appreciating the ideals for which the United States, true to their great tradition, stand today in the world must be extremely puzzled by the fact, much commented on in Europe, that precisely in that part of Europe where they are practically the rulers, i.e., in Western Germany, the Americans are, by a formidable bureaucracy, keeping and even further developing a collectivist system which is surpassed only by the Russian. Those in Europe who share the American ideals refuse to believe that this paradox will be tolerated much longer.

C. D. Evans With Slayton

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Charles DeF. Evans is now with Slayton & Co., Inc., 408 Olive Street. In the past he was with Bankers Bond & Securities Co.

As We See It

(Continued from first page)

appear to Russia, and, for that matter, to many people in many countries where we are strenuously endeavoring to compete with Russia for influence if nothing else. We are much too inclined to say that we have no imperialistic ambitions, and let it go at that — apparently on the assumption that other peoples (long accustomed to observing the type of policy and the lines of action we are now taking linked, not with unselfish or even indirectly selfish desire for world stability and peace, but with designs upon the freedom and property of others) will without further ado consider us *sui generis* in world history, and accordingly without guile.

Asking a Good Deal

This seems to us to be asking a good deal of the world. It is true, in a sense, that our interest in Europe as judged by the conventional tenets of world politics appears to be out of place. We, a relatively young, industrialized but still not fully developed country, could scarcely harbor any desire to "conquer," "subjugate," or "exploit" the older, industrialized, overpopulated regions of Europe. Whatever may be the shortcomings of European economies or European politics or European peoples in the past, Europe, according to the usual standards, is certainly not fertile ground for "investment," "development" and "exploitation." Only on the theory that we regard it necessary to limit or restrict Russian power and influence in Europe in order to protect our imperialistic interests in other sections of the globe can our course as respects that Continent be readily explained in terms of the ordinary tenets of world politics — unless, indeed, the assumption is made that we fear direct attack upon our own shores by Russia without conflict of interest outside Europe, which seems a little far-fetched.

But the world is wide, and we are active in many parts of it. Our development of bases off our shores in the Atlantic, and in the Pacific as far away as the Hawaiian Islands may, we suppose, be easily accepted as merely "defensive" in an uncertain world. Somewhat the same is true of such outposts as Alaska and the Aleutians — and possibly in the North Atlantic. According to the theory that we have been developing of fighting all wars on the other side of the globe, and in the view of American citizens who have become saturated with this idea, it may appear a natural course of events for us to develop and maintain bases strung out from Pearl Harbor south and west until they almost touch the shores of Asia and dominate a large section of the southwest Pacific.

How Must We Appear?

But how must these things appear to the Asiatic with centuries of western exploitation behind him? Suppose we ask ourselves just how we should view the possession by some dominating sea power of bases among our own West Indies, in South or Central America, in the Azores, along the northwest coast of Africa, in Greenland, in Iceland, in Newfoundland, on some of the islands off the Panama Canal, in Alaska, or any of the other areas as close to us and as strategically important to us as some of these bases we insist upon maintaining are to Asia or even Europe. Should we be ready without misgivings to accept disavowals of imperialistic intentions? We must not permit ourselves to forget, whatever our intentions, that we still have a navy stronger than the combined navies of the rest of the world; that we have a stockpile — how large no one knows — of atomic bombs; and that in many other respects we are the most formidable military power on the globe. It would be quite unreasonable to expect all other peoples to regard us as the one nation in history which despite all this is and will remain without territorial and other international ambitions.

There are at least two reasons why foreigners can be excused for suspecting us. One of them is the obvious fact — whether wise or not is not here under discussion —that we intend through our relief grants, our gifts of various other sorts, and our diplomatic maneuvering to have a strong voice in European affairs. Of course, it is merely silly to say, as a few insist upon doing, that we have not "played" or are not "playing" politics with "relief and reconstruction." It may well be that we are really only trying to save Europe from Russian domination as a matter of ultimate self-protection — but there can be no doubt that a good deal of maneuvering has taken place for the purpose of influencing purely domestic policies. We have very definitely been interfering in the internal affairs of a number of countries. If we have done so merely in an effort to combat the effect of similar policies by Russia, that does not alter the fact that we have followed such a course — and that fact alone tends to take the edge off our protests of disinterestedness.

Underwriting Empire

Another circumstance which definitely tends to reduce the force of our claim of disinterestedness is the fact that we have in fact if not in word permitted ourselves to become a sort of underwriter of the British Empire, or of such parts of it as the London authorities are ready to undertake to hold on to. That, more or less obviously, is what our course in World War I came down to, and it is quite plainly our role in World War II. Whatever the official proclamations on the subject, or lack of them, it is a fact that we have repeatedly taken courses which had as their obvious objective the preservation of some of the "life-lines" of that Empire. It is almost taken for granted in most public quarters that our future safety depends upon keeping Britain afloat, which is about the same thing as maintaining the Empire. Now, of course, Britain has never been without international ambitions, and is not now without them.

If only we could stand off for an hour or so and look at ourselves through other peoples' eyes, it would help a good deal.

Postwar I and II Conditions— A Comparsion

(Continued from first page)

dropped, taxes were reduced and preparations made for serious unemployment. However, the adjustments were made more quickly and more easily than the most optimistic believed possible and unemployment failed to develop. Some of the wartime controls were dropped too quickly in the light of price rises that promptly developed.

Two Opposite Views

There were and there continued to be two schools of thought. One believed that the postwar pattern of our economy after World War II would follow the pattern after World War I. They generally predicted that the country would suffer a serious recession, commencing in the spring of 1947. Even when this did not happen, they became more certain after the break in the commodity markets in February, 1948.

Another school of thought believed that World War II had been so different from any of its predecessors that it was likely to be followed by an entirely different sequence of economic events than had followed World War I. They point to such disturbing world events as the recent communist coup in Czechoslovakia and the militant drive of communism throughout the world. Thought today, both among economists and practical businessmen, is still oscillating between these two points of view. I believe that—as is so often the case in the real world—the truth lies somewhere between the two extremes. Just where this mean may be is a question of utmost significance for practical businessmen.

I do not pretend that I have the answer to this question which is so much in every businessman's mind. But, in order to give you the benefits of my own thoughts on the subject, I would like to take you on a short tour of the economic situation and of the international political situation, pointing out some respects in which the current situation resembles that of 1919-1920 and in what respects in differs from it. I have selected the period after World War I that most nearly compares with the present.

The International Situation

Let us start with the international political situation. I do this, not because I have any new contribution to make in this field; but because, in my opinion, events in the international field will, more than any others, determine what happens to domestic business.

The communists have for years preached the economic interpretation of history. They have told us for generations that economic events determine political events. That is what they say. But, in the course of two or three years of concentrated action, they have done an extremely effective job of teaching us just the reverse.

As far as today's march of events is concerned, world politics determine world economics, and not the reverse.

There is no economic reason why the world should not be at peace. There is no economic reason why we should have to spend fifteen billion, or ten billion, or even a billion dollars a year for national defense. These is no economic reason why Russia should spend a far larger share of her national product than we do for this same purpose. The reasons are entirely political; they are based solely upon the insatiable desire of the Soviet Government for world domination.

The drive behind this desire is the great unknown in the domestic business situation. If this drive for world domination is so strong as to put and to keep the United States on a quasi-war basis, all comparisons with the post-World War I sequence of economic events are pointless.

It is under the shadow of this great doubt that we proceed with a comparison of the economic situation now and in 1920, and an analysis of the present-day significance of the post-World War I pattern.

That I find it worthwhile to proceed with this analysis at all, and that—I hope—you find it worthwhile to follow me in it, are tributes to our faith that ordinary everyday common sense will triumph, even over the intricate dogmas of communism; and that the men in the seats of authority in Russia will ultimately find it more worthwhile to build up their own system than to try to tear down ours.

Role of Government in the Economy

And so we proceed with our economic tour. Back in our own home waters, the first scene which it sems worthwhile to survey is the role of government in our economy. In the calendar year 1920, the total expenditures of the Federal Government were equal to only 6% of the national product. For the calendar year 1947, the corresponding percentage was 18%. Part of the explanation of the high 1947 figure is, of course, the unsettled international situation; but a great many large government expenditures are here to stay, irrespective of events abroad.

This expansion in the role of government is an important factor in our economy today that existed only to a minor degree in 1920. A further expansion could make our system less productive, more rigid, and less adaptable to new wants. But, looking ahead over the next few years, it is apparent that the greater role of government in the economy today —and the stable, and even anticyclical, character of government operations—is evidence on the side of expecting a more stable level of business activity in the years ahead than was the case in the years which followed 1920.

This greater role of government weighs heavily on our interpretation of many other economic series. The Bureau of Labor Statistics' index of consumer prices has advanced about 68% from its 1939 average, as compared with an advance of about 108% from the 1914 average to June, 1920. The Bureau's index of wholesale prices has advanced about 108% from its 1939 average, as compared with an advance of about 145% from 1914 to June, 1920. Prices of industrial products have advanced much less than in World War I, but farm prices much more —180% for the present period as compared with 135% in the former. We well remember that the downturn in farm prices was one of the first signals of the 1920 break. We had our memory jogged on this point last February. But, here again, the role of government enters in the form of support prices for agricultural products. Nineteen hundred and twenty can harly be expected to repeat itself here.

Post-War Agricultural Situation

In yet another respect, far removed from government intervention, the agricultural situation is now vastly different than it was in 1920. While the prices of farm real estate have advanced even more rapidly during the past few years than during and after World War I—by 102% from 1939 to 1948, as compared with 75% from 1912 to 1920—this rise is very different in two particulars. First, the World War I rise came on top of a protracted rise in the previous decade. The World War II rise, on the other hand, has been largely a recovery from the depressed market of the 1930's. Second, and perhaps more important, the World War I rise was accompanied by an increase of about 160% in farm mortgage debt, while the World War II rise has been accompanied by a decrease of about 30% in such debt.

Based on the same principles which a banker would us in reading the balance sheet of an industrial concern, agriculture is in a sound position today. The consolidated balance sheet of all agricultural enterprises in the United States as of Jan. 1, 1947, as estimated by the Department of Agriculture, shows total assets of about $111 billion and total liabilities of about $8 billion. There are no correspoding figures available for the 1920 period, but we do know that farm mortgage debt has been cut in half during the last 25 years.

Money Supply Factor

Returning to the general subject of commodity prices, one of the primary causes of the rise in prices which characterized both war periods was the great increase in the money supply.

The money supply, defined as currency outside of banks plus adjusted demand deposits, increased about 104% during the period from 1914 to 1920, and about 230% in the period from 1939 to 1948. Based on the increase in money supply alone, therefore, one would have expected a greater relative rise in commodity prices in the second

war period than in the first. But, as I have already pointed out, the reverse is actually the case—the increase in both wholesale and consumer prices from 1939 to the present time being less than that from 1914 to June, 1920.

The difference in the money supply situation now and in 1920 is worth looking into further.

In the first place, we have more money relative to our volume of business now than we did then. In 1920, we had about 27 cents in money supply for each dollar of the gross product; now, we have about 46 cents of money for each dollar of product. Businessmen and consumers alike want to play their cards closer to the chest than they did a generation ago. We like to have more money in the bank and more money in the till before we go ahead now than we did then. Whether or not this increase in the conservatism of the American people has been great enough to absorb the entire increase in the money supply, only time will tell. But it can be said with reasonable certainty that today's money supply goes much farther toward supporting and sustaining today's prices than the 1920 money supply went toward supporting 1920 prices.

So much for the difference in the amount of the money supply now and in 1920. It is also very different in kind.

In both wars the increase in money supply was brought about partly as a result of financing the Government deficit and partly as a result of financing an industrial expansion. But there is a big difference in the proportions. The expansion of the war industries in World War I was largely financed by the issuance of their own securities and by their own borrowing; whereas in World War II, it was financed principally by the Government. As a consequence, a much larger proportion of the money supply in 1920 was backed by the private loans and investments of banks than is the case today.

In 1920, private debt constituted 80% of all debt, whereas today private debt is only 40% of all debt.

In 1920, United States securities accounted for only about 11% of the total loans and investments of all member banks; while today they account for nearly 60%. This means that the money supply—and the whole economy—is much less vulnerable today to the type of loan contraction which swept the country in 1920 and 1921 than at that time.

The discussion of money supply brings us back again to one of our central themes in the comparison between now and 1920—the changed role of Government.

The Federal Reserve Ratio

In June, 1920, the Federal Reserve ratio was about 41% and the Federal Reserve authorities took it for granted that this required a drastic deflation in member bank borrowings — which then amounted to between $2½ and $3 billion. Today the Federal Reserve gold ratio is about 51% and member bank borrowings are only $68 million. But, much more important, our whole attitude toward the significance of figures of this type has changed.

It is no longer considered proper or necessary to liquidate the economy because of a low or declining Federal Reserve ratio. If the economy were otherwise sound, a change in the reserve requirements of the Federal Reserve Banks by statute would be considered a more appropriate remedy. These requirements actually were reduced from a figure of between 35% and 40%, depending upon the relative amounts of currency and member bank reserve deposits in the liabilities of the Federal Reserve Banks — to 25%, irrespective of these proportions—in June, 1945, when the war was still going on and it seemed that the old ratio might be violated.

Next to the change in the international situation, this changed attitude with respect to the role of government in our economy is probably the greatest change between 1920 and now. The country now expects the government to sit on the high side of the boat, and government now undertakes to keep the boat steady—with varying success.

Corporate Profits

The next point on our tour is corporate profits.

The Treasury Department has estimated, in its testimony before Congressional committees, that in the calendar year 1947 corporate profits after taxes amounted to about $19 billion. This is an increase over 1939 of a little over 200%.

In 1919—the best profit year in the period immediately following World War I—corporate profits after taxes amounted to about $6 billion, an increase as compared with 1914 of only about 60%.

The economy has so grown during the intervening period that a comparison of dollar profits now and then is almost meaningless. But there is one pair of figures that sticks in my mind. In 1919, corporate profits after taxes amounted to 8.1c for every dollar of the gross national product; in 1947, the corresponding proportion was 8.2c for every dollar of product.

The amazing similarity in the proportion of the national product represented by corporate profits in those two good years—28 years apart—is a fact to be conjured with. It is equally sobering to those who say that corporate profits have run off the track in their excessiveness and to those who say that the "good old days" have gone forever.

However, in 1921, net corporate profits disappeared completely. The fact is, of course, that corporate profits are one of the most flexible elements in our economy and must be expected to be high in good years and low in poor ones, both in absolute amount and as a proportion of the total product.

Corporate profits are, of course, much higher in some lines than in others. A tabulation published by The National City Bank of New York, in its April Review of Economic Conditions, shows that 3,102 leading corporations in all lines of activity earned an average return of 12.2% on their net worth in 1947. Of the 70 lines of activity for which the bank made separate compilations, the highest return on net worth was in the cotton goods industry where this return was 36.1%.

I have said that corporate profits are one of the most flexible elements in the economy and profits in the cotton textile industry are more flexible than most; but there are some who think this is carrying flexibility a little too far. The cotton textile industry has had more than its share of boom and bust—profits in cotton goods manufacturing fell by about 87% between 1919 and 1921—and it may well be a proper time now for cotton manufacturers to consider pricing policies more in line with the permanent preservation of their markets.

Stock Market Prices

As you know, the stock market views the current earning rate in the cotton textile industry with a good deal of skepticism. The stocks of some of the best companies in the industry are now selling at only two or three times 1947 earnings. Such skepticism runs through the entire market, although in less extreme degree. The prices of common stocks, as measured by Standard and Poor's comprehensive index, are up only 31% from their 1939 average, despite the great increase in corporate profits and in the replacement value of the underlying plants. The 50 industrial stocks included in Standard and Poor's daily index are selling, on the average, at only about 8 times their 1947 earnings.

The increase in stock prices in the World War I period was even less. Stock prices then reached their high for the entire war period in 1916 before the United States entered the war. The average for 1919—the highest postwar year—was only about 4% above that for 1914; and the average for 1920 was about 7% below 1914. Nineteen hundred and twenty stock prices, like those of the present time, represented a conservative evaluation of current earnings.

It may reasonably be concluded, then, that the stock market was not a focal point of weakness in the economy at the time of the 1920-21 recession, and that it is not now. In both cases, stock prices have failed to reflect the full current level of corporate profits. This is quite the reverse of the situation in 1929, when the market was reflecting an expected sharp rise in profits; so that even a leveling off of profits would have likely precipitated a stock market crash.

Urban Real Estate

I come now to the field of urban real estate.

I have had the distinct impression that this is one field more vulnerable at the present time than it was in 1920. We know, in the light of the outcome, that the urban real estate market was one of the least vulnerable elements in the 1920 situation. It is extremely disconcerting to read such statements concerning the present situation as that in the March "Federal Reserve Bulletin" that:

". . . The increase in mortgage indebtedness on 1- to 4-family residences, for example, has been estimated at $5.5 billion for 1947, almost $1 billion more than the 1946 growth and $5 billion more than that for 1945. Mortgage indebtedness on this type of housing has increased during the past two years by an amount greater than new construction expenditures on such housing. . . ."

It is difficult to compare the urban real estate situation now and in 1920 because of the lack of reliable data covering both periods. Different indices of building costs, for example, vary widely among themselves; and perhaps all fail to reflect the actual results realized on the site. Nevertheless, it is interesting to note that the indices of building and construction costs compiled by the "Engineering News-Record," by the American Appraisal Company, and by the Associated General Contractors, all show a smaller increase since 1939 than occurred between 1914 and 1920.

According to the best estimates which we have been able to obtain, total urban mortgage debt increased about 50% in the eight years ended with 1947, as compared with an increase of about 40% in the four years ended with 1920.

One of the considerations of present urban mortgage debt is the long arm of Government. It has been reaching out into the field of guaranteeing mortgages, with the possibility that the Treasury may eventually be rapped on the knuckles. But such an outcome, however unfortunate, would, in any event, ameliorate the situation from the standpoint of individual mortgagees and, to a lesser extent, individual mortgagors.

Among the favorable factors, it many be argued that monthly payments, low interest rates, and long amortization periods on most existing mortgages will make them easier to bear.

But I do not find that any of these considerations are able to erase from my mind the impression given by such statistics as those on the relationship between the increase in mortgage debt and new construction which I cited earlier from the "Federal Reserve Bulletin." Taken all in all, it appears to me that the current urban real estate situation is perhaps one of the weakest elements in today's economic picture.

There are several other important economic fields that we should examine in our analysis. However, the limitation of time permits only a brief mention of some of them.

The gross public debt of the Federal Government is more than ten times as great as in 1920. This is more than the national gross product in 1947. It constitutes about 60% of the total of all debt, public and private, in the United States. The management of this debt imposes upon the Government the necessity of controlling interest rates, not only in the interest of the Government itself but in the interest of our national economy. Every change in interest rate has its impact on the financial and credit structure. It is reasonable to expect that the management of this debt and the control of interest rates which such management gives will be conducted in the interest of the stability of our economy.

Fiscal policies of the Federal Government, budgetary management and changes in our tax structure are also important elements in our national economy. They constitute a large field of discussion, which my time does not permit.

A factor of tremendous importance in our economy is the total of liquid assets held by individuals aggregating approximately $200 billion at the present time. Of this amount, nearly $150 billion has been accumulated during the past eight years. Of this total amount, $67 billion represents individual holdings of United States Government securities.

Summary

When we summarize all of the facts and factors of our present economic situation as compared with 1920, we discover:

(1) That there are basic elements of financial and economic strength in our economy today that proportionately can sustain a higher price level and a higher production than could be sustained in 1920. In addition, there are fewer weaknesses in our price structure and in the credit structure than in the former period. These facts do not necessarily mean that both prices and production may not decline. They do indicate, however, that if prices do not increase above current levels and if our credit structure does not become weakened, prices are not likely to suffer the precipitous drop that occurred between May, 1920 and June, 1921.

Another important factor that was only slightly present in 1920, but now has assumed large proportions, is the substantial control of industrial wages by organized industrial labor. We may reasonably expect a strong resistance to any serious decline in wage levels.

I do not mean to say that we cannot expect price adjustments in the years ahead and the likelihood of price reductions in many lines. As production and demand come into better balance, price adjustments are inevitable. At the moment, the task is to hold the line on the inflation front and to prevent further rises that might eventually result in too costly readjustments.

I believe it is possible to attain that objective, provided there is proper restraint on the part of business, of finance, of labor and of Government. To pursue any other course may endanger not only our private enterprise system but democratic government in this country as well.

News About Banks And Bankers

(Continued from page 34)

Albert B. Comstock, President of the **United States Trust Co. of Louisville, Ky.**, announced on April 20 that directors have made Sidney W. Clay Vice-President and Treasurer of the company and made Alexander M. Watson Vice-President. Mr. Clay was Trust Officer and Mr. Watson is a director, it was stated in the Louisville "Courier-Journal."

* * *

John A. Boardman, Vice-President of the **First National Bank in Palm Beach, Fla.**, was advanced to the First Vice-Presidency at the bank's regular monthly board meeting. This position was formerly held for many years by Bert C. Teed, who recently retired from the bank because of ill-health. Comer J. Kimball, a director, was elevated to the newly created office of Vice-Chairman of the board. He will continue to supervise the investment portfolios and trust investments of the bank. Mr. Boardman has had over 20 years of banking experience and for the past seven years was Executive VicePresident of the **First National Bank in Lake Worth, Fla.**, an affiliate of the First National Bank in Palm Beach. In September, 1947, Mr. Boardman joined the staff of the First National Bank in Palm Beach as Vice-President. Mr. Kimball has been associated with the management and development of the Reynolds' group of banks since 1940. He has had over 20 years of banking experience in New York and Florida and is now serving as director and Executive Vice-President of the **First National Bank in Miami.**

* * *

Following the meeting of the board of directors of **Citizens National Trust & Savings Bank of Los Angeles**, held April 20, H. D. Ivey, President, announced the following promotions: G. C. Grant, Junior Vice-President, was elected Vice-President; he is presently manager of the University-Westwood branch, and will remain in that office; A. M. Mathews, Junior Vice-President and Manager of the Wilshire-Hauser branch office, was elected Vice-President, and will continue in charge of that office. President Ivey, William H. Schroeder, Vice-President and Manager of the foreign department, and Louis G. Brittingham, Vice-President of the bank, attended the 14th annual convention of the Mexican Bankers Association, held in Tijuana, April 22-24. Following the convention many of the delegates visited Los Angeles where they were guests of the Los Angeles Clearing House banks. A reception at the California Club on April 26, and a tour of the city with luncheon at Del Mar Beach Club on April 27 furnished entertainment for the visitors.

* * *

The Anglo California National Bank of San Francisco plans to open in Fresno one of the finest banking structures in Central California, it was announced on April 17 by Allard A. Calkins, President. The new office will be located at Fresno and "L" Streets, the plans including the remodeling of the former Holland Building. Work is to be started immediately and it is estimated that the new office will open in approximately six months. Mr. Calkins states that the new Fresno home of the Anglo will be one of the most modern banking offices in the San Joaquin Valley. The present Fresno office of Anglo Bank will remain at its temporary location at the corner of Van Ness Avenue and Tulare Street until the new quarters are completed.

Inflationary Trend and How to Correct It

(Continued from page 19)

sumer demands of our own people, the amount of government paper money will increase rather than decline. However, at the present time the danger of further inflation is not so much from the issue of paper money. The government has not, at least as yet, embarked upon any policy of issuing unregulated and unsecured paper money. This is certainly not the only cause of the present inflation.

Wage Increases and Inflation

There are other ways in which the amount of dollars, can be artificially increased. The present inflation in this country presents a new cause. We are experiencing an increase in money, not merely or even most importantly from the government printing presses, but rather from the payment of increases in wages and salaries unaccompanied by increases in productivity. What we need to learn and to learn fast is that wage increases unaccompanied by increases in productivity are the equivalent of fiat paper money and are just as certainly the causes of inflation as the unregulated operation of government printing presses turning out greenbacks.

When wages rise faster than production the effect is inflationary. It couldn't be anything else. Such wage increases will produce precisely the same inflationary effects and will just as surely in the end produce economic depression and disaster as the issue of unregulated and unsecured paper money.

Here is a condition that merits the serious consideration not only of employers and statesmen, but also of intelligent labor leaders. Every wage increase unaccompanied by an increase in productivity or output adds inevitably to the already dangerously high tidal wave of inflation.

If we wish to avoid disaster we must find ways either to increase productivity faster than increases in wage rates, or to stop increases in wage rates that are not accompanied by increases in productivity. It has been authoritatively estimated that the wage costs entering into consumer goods, from the production of the raw materials to the sale of the goods over the counter, constitute 85% of the total costs. Clearly whatever happens to wages is vital to prices.

There are but two ways in which our productive economy can counterbalance increasing wage rates. It can do so by the introduction of technological improvements. It may, in some cases, secure higher productivity by greater exertion and more efficient effort on the part of workmen. Technological improvements are largely due to invention and to superior management. You can make stockings more efficiently and in greater number per manhour when better mechanical contrivances and better systems have been developed. But advances in technological improvements have been very uneven for the different industries. In the 20 years before the war, for industry as a whole, such improvements averaged a gain of about 3% in productivity per year. There are also wide differences not only by industries but also within given industries in the efficiency of productivity of the workmen themselves. It is a serious question, however, particularly when one considers the trend towards shorter work hours, whether in the past 25 years there has been any gain whatsoever in human efficiency apart from technological improvements.

The facts are that there have been no substantial technological improvements and little, if any, increase in efficiency of workmanship in American industry as a whole since 1939-40. In the future, if our economy, including its employers and employees, were given conditions of external and internal peace, it might be assumed that the trends of productivity due to technological improvement and perhaps even to some extent to increased efficiency in workmanship, would again be established, and as a consequence the economy might again reestablish its yearly average gain of about 3% in productivity. That would make it possible not only to raise real wages but also to reduce prices, the process that made this country a great industrial nation in the past.

Lacking substantial increases in productivity either from technological improvements or increased worker efficiency, the increases in wages granted during the last eight years have run away, and are still running away, from increases in productivity. That, gentlemen, is today the chief cause of the present inflation.

The present drive by the unions for a third round of wage increases, like its predecessors, such as the 240,000 wage increases, of which over 200 were industrywide, which were granted and approved during the war years at a time when wages and prices were both supposed to hold the line, has resulted in a race between higher wages and rising costs of living, like that of a boy in the sun trying to outrun his shadow.

Minimum Wage Laws

In the remainder of this statement I would like to call your attention to a method of raising wages, a method which has no relation to and is not in any way dependent upon increasing productivity, but which works almost automatically. It is amazing to me that this method which is being pressed by the unions and their politicians has received so little attention from employers and statesmen. I refer to the method of raising wages by raising the minimum basic wage rates by legislation.

We now have in this country 26 states out of the total of 48 that have minimum wage laws. Out of these 26 states there are three in which no wage orders have been issued. In one other state all operation under the Act has been held up by a court order. In still another state there has been but one order and that affecting a minor industry. There are thus 21 states in which the minimum wage principle is being applied at the state level.

At the national level there is what is known as the Fair Labor Standards Act of 1938 that fixes the minimum wage for all employees engaged in interstate occupations and also the maximum hours of work with time-and-a-half for overtime.

Both at the state and Federal levels there is at the present time a tremendous amount of pressure: (1) for the extension of State legislation to the states that do not now have such laws; (2) for the increase of the minimum wage rates in those states that do have such laws; and (3) for the increase in the minimum wage at the Federal level from the present 40c per hour to some higher amount. One bill before the U. S. Congress at the present time would raise the minimum wage rate to 75c per hour. There have been other proposals for 65c and 60c per hour.

You all know where this pressure is coming from. The union pressure is being supplemented, however, to some extent by the support of social workers and citizens who are generally inclined to liberal views where privileges to labor are concerned. This pressure is well planned. It represents enormous political power. If successful, the proposals urged are certain to have far-reaching economic and social effects.

There is much more to a minimum wage regulation than appears on the surface. The original purpose of those who started the minimum wage movement was to increase the incomes and to improve the standards of living of the least skilled, least employable, the lowest paid, the marginal workers in the economy. Most people of good-will have always been favorably impressed by and sympathetic to, such a purpose. To some a minimum wage regulation has seemed an easy solution to the problems of low paid workers. All that seemed necessary was to pass a law prohibiting employment at any rate below a fixed minimum wage, a wage high enough to cover the necessities of life.

Repercussions of Minimum Wage Laws

Unfortunately the effects have not been as anticipated. The establishment of a minimum wage usually sets off an entire series of repercussions. It has been found, for example, that the establishment of a minimum wage, particularly if widely applied and enforced, tends very soon to leave the intended beneficiaries, the marginal workers of our economy, as badly off as, or worse off than, they were before. This is the case right now under the Fair Labor Standards Act of 1938. Furthermore, the effects go deeper. They harm entire segments of population. It is not that business in general, or certain types of business, are harmed, but rather that inflationary trends are established which harm every citizen dependent in any way upon properties bearing the dollar sign. These are strong statements and I hope you will be interested in the explanations.

Here is the way that a minimum wage, or an increase in a minimum wage, actually works. A minimum wage, however it may be set, whether by law or by the process of market bargaining, constitutes the base wage rate of the entire economic wage structure. This is the wage of the marginal worker. All wage rates above the basic minimum wage rate constitute differentials paid for differences in skill, experience, efficiency, dependability, responsibilities carried, special abilities and so on. Wherever there is a wage that is higher than the basic wage, that wage rate is due to factors of value in production for which the employer is willing to pay. The differentials in wage rates in excess of the minimum basic wage rate paid to such employees constitutes the economic measure of need, desirability or productivity of such workers, as compared to marginal workers. There are always some, and there will always be some, employees who are worth twice, or many times, as much as marginal workers. If you want better than marginal workers to work for you, you will have to pay them what they are worth above the marginal wage.

Let us consider, for example, the effect of changing the minimum wage rate from 40c to 65c per hour. Such an increase means raising the base or marginal wage rate more than 50% (62½% to be exact). First there is the effect on employment. An increase in the minimum wage rate, arbitrarily fixed by law, provides no guarantee of employment. The advocates of minimum wage legislation say that it provides protection. This is obviously inaccurate. No minimum wage law offers any protection. Those who are employed at the former rate may be laid off at the new rate. Raising the minimum wage does not increase the productive efficiency of, or the worth of the employee. A minimum wage law can not compel any employer to pay higher wages and to keep all of his former employees. Whether marginal employees will be employed at a higher wage rate depends entirely upon whether the employer can in some way secure increased productivity from such employees, or on whether he can secure increased prices to cover the increases in wages fixed by the law.

Clearly, if there is a sellers' market, such as there has been since 1939, and if goods can be sold at higher prices, then, since all employers are subject to the law, even though competitive in all other respects, they will raise their prices to cover their increased common labor costs. Under these conditions employees whose wages have been arbitrarily increased by law may continue to hold their jobs.

But under conditions of a buyers' market, when customers are indifferent as to making purchases at present prices and unwilling to pay higher prices, then it is inevitable that some, if not most of the marginal workers whose wages have been arbitrarily raised by regulation will be thrown out of work.

This isn't theory. This is the way the minimum wage regulation actually works. Within three months after the effective date of the United States Wage and Hour Law in 1938, when the minimum wage was fixed at only 25 cents per hour, in spite of increasing demands for goods and increasing employment, there were, according to Elmer Andrews, then Administrator of the Wage and Hour Act, from 30,000 to 50,000 persons thrown out of work because of the minimum wage. If the minimum wage were now to be increased at one fell swoop by 62½% it is inevitable that this would be accompanied by greater disemployment.

Adjusting Other Rates to Minimum Wage

Another effect of the establishment of a minimum wage at a higher amount is the consequent necessity for adjusting other wage rates to this new base rate. If a basic minimum wage is increased from 40 cents to 65 cents per hour, it also becomes necessary to change all of the previously existing differentials above 40 cents per hour to higher rates of pay.

If and when the base rate is moved up from 40 cents to 65 cents per hour, employees who formerly received 45, 50, 55, and 60 cents per hour, are also entitled to have their wages raised not merely to 65 cents, but to differentials above 65 cents, corresponding to their differentials above the preceding base rate. After the establishment of the new base rate, such employees would, therefore, be entitled to wage rates of 70, 75, 80, 85 cents, and more, per hour.

But following these adjustments for the wage earners who previously earned more than 40 cents, but less than 65 cents per hour, it would also be necessary to raise the wages of those who formerly earned more than 65 cents per hour. After marginal workers have had their wages increased more than 50%, and after those employees who formerly earned from 40 cents to 65 cents per hour have had their wages proportionately increased, it would be neither fair nor practicable to expect workers of higher competence to continue their employment without similar increases in their pay. They, too, would have to have their wages increased. Within a relatively short time following the increase in the minimum basic wage level, wage increases would have to be granted all along the line up through the entire wage structure.

It is not to be assumed that these far-reaching adjustments in wage differentials, following the adoption of a new or a higher minimum basic wage rate, occur with the precision and accuracy of a mathematical formula. There are very few, if any, economic or social effects that may be described with complete mathematical exactness. Economic effects are nearly always the results of pressures more or less unevenly distributed and more or less unevenly operative.

There will, of course, be a time lag between the establishment of the basic minimum wage rate and the adjustments of all the differentials. This time lag would certainly vary somewhat from industry to industry, from geographic area to area, from community to community and even from concern to concern.

Not all of the differential wage rates would be adjusted in the same proportion as the minimum base rate. Some employees entitled to differentials would undoubtedly get more, while others would get less than the proportionate increase. There would undoubtedly be some employees who would feel that whatever increases they might obtain are inadequate. Consequently an entirely new set of arguments about inequities would arise, accompanied by employee irritation and industrial dissension, which would require considerable time for correction.

Black Market Violations

Finally, there would certainly be black market violations of the law. There have been violations in the past and there are violations at the present time. There will be evasions of various kinds. Don't think that there won't be. The annual reports of the United States Wage, Hour and Public Contracts Division for the past two years, the years of greatest employment and highest wages we have ever had, showed that more than three-quarters of all the employers operating under this law were guilty of violations of one kind or another. More than half of all the employers inspected were guilty of what was described as "major violations."

One doesn't have to be very sagacious to foresee that raising the minimum wage by more than 50% will increase the number of violations. What next? Are we to go through another period of wholesale disobedience of the law such as followed our great and noble experiment of prohibition? Or will this law be followed by the demand from the Administrator for the establishment of an enormous bureaucratic inspection and enforcement service? Or will we have discriminatory inspection and enforcement with the selection of concerns for such enforcement made by politically appointed officers? The prospect is in no way very encouraging.

When a new or a higher minimum basic wage rate is established, it simply creates a situation that makes it persistently and logically necessary to pay similar wage increases throughout the entire wage structure. When confronted by a new minimum wage regulation, intelligent and fair-minded employers will promptly recognize the logic as well as the need for raising wage differentials of their more competent and highly skilled workers if they can possibly do so. If they fail to do so, their better employees will, sooner or later, seek employment elsewhere. If the adjustments in wage differentials are not corrected by the employers themselves, the need for such corrections will very soon be explained to them by representatives of the CIO and the AFL.

From this it will be seen that the establishment of a higher minimum wage rate is, in fact, a very powerful and effective lever for hoisting the wage rates not merely of marginal workers but of all workers throughout the entire wage structure. After the basic wage rates have been increased, all persons who formerly received differential wage rates are entitled to and should have proportional wage rate increases. Every employee who formerly earned a differential wage rate above what was then the basic or

marginal rate will, when that basic or marginal rate is increased, have a very logical claim for a wage increase. Such a wage increase may be effectively urged either individually or collectively. Such wage demands, based, as they will be, on what is both logical and fair, will have to be granted.

A Device for Raising General Wages

The minimum wage law is, in fact, one of the most potent devices ever invented for securing wage increases, not merely for marginal workers, but also for all other, higher skilled and better paid workers. This, I suspect, may be one of the reasons why the unions, especially during recent years, have been so eager for minimum wage legislation. It makes their job in bargaining for higher wages much easier. It recreates a new set of conditions for an entirely new set of wage rates. Why wouldn't union leaders favor such a set-up?

But higher wages without increased productivity simply mean higher production costs. Higher production costs must, in turn, find their way into higher prices. Every increase in wages without an increase in productivity tends to be purely inflationary. The minimum wage is not the only cause of the present inflation, but it is a highly important contributing factor. If increased from 40c to 65c per hour, it will become a major cause.

It is amazing that there are so few persons, other than labor leaders and their economists, who understand and properly evaluate the device of the minimum wage. It may be sincerely doubted whether most liberal minded community leaders who have in the past favored the application of the minimum wage device had any real knowledge of what its effects really would be. It is even more amazing that there are so many business men and employers who have no apparent understanding of the effects of minimum wage regulation on the business economy or even on their own businesses.

The following case is probably typical. A few weeks ago a well-known textile manufacturer appeared as a witness before a Congressional Committee. In the course of the discussion, he was asked by a member of the Committee whether his business was affected by the minimum wage provision in the Fair Labor Standards Act of 1938.

"I don't understand. I don't know what you mean," the manufacturer replied.

The Congressman then clarified his question by asking whether it would make any difference to the manufacturer's operations if the mimimum wage were to be raised from 40c to 60c or 65c per hour.

"No. Not at all," the manufacturer replied. "I'm already paying all of my employees more than 65c per hour."

With all due respect to this and to other business men for their ability to run successful businesses, their thought on the minimum wage, if like those of this industrialist, represent sheer economic illiteracy. Such thinking, or lack of thinking, is positively dangerous to our entire economy.

We can all agree that high wages, real wages, are desirable. One of the most important measures of the progress in this country is the large increase in wages, real wages, that have been gained by our workers. Real wages are now at a higher point than they have ever been before. They are at a higher point than they have ever been in any country in the entire history of the world. It is our common hope that this trend will continue. But real wage gains have always been achieved by increased productivity. There would have been no wage gains on this continent if there had been no increases in production. It is man-hour productivity that has made possible the high American hourly wage rate. It is man-hour productivity that we need now. Let us never forget this.

In view of these facts we must recognize that the purpose of the minimum wage has been changed in recent years from attempts to insure basic subsistence wage rates to the least employable, least efficient, or marginal workers to attempts to use the minimum wage principle to make it easier to secure higher wage rates throughout the entire wage structure. The minimum wage is no longer a mere method of protecting marginal workers. It has become a subtle, ingenious and effective means of collective bargaining.

In the early days of the minimum wage movement its promotion came mainly, as already indicated, from social workers liberals and even religious leaders who sincerely believed that through the establishment of minimum wage rates the working conditions of the least employable and marginal workers could be improved.

For many years labor leaders took little or no interest in the minimum wage movement. Many of them, including the heads of the American Federation of Labor, were opposed to it. There are ample records of public hearings in many places in which union men appeared against minimum wage legislation. It was not until the 1930's that American labor leaders, first from the CIO, and later from the AFL, began to see the possibilities of using the minimum wage as a powerful, far-reaching mechanism to obtain higher wages at any levels. In recent years, in complete contrast to their earlier position, the unions have been the most ardent advocates of the minimum wage.

What the union leaders have apparently not seen is that higher wage rates so exacted, bearing no relation to man-hour productivity, have led to increased costs of production, to higher prices, to the debasement of the value of the dollar, and to inflation.

The present inflation in the States is in considerable part the fruit of the widespread application of the minimum wage principle, accompanied by proportional wage increases all along the line throughout the entire wage structure. Now the prices of goods have caught up with the wage increases. Wage earners are now about as badly off as they were before the minimum wage laws were passed. In many cases they are worse off. The only remedy that has been proposed by the labor leaders so far has been the upward revision of the minimum wage rates and upward adjustments in all other wage rates. It should, of course, be clear that this procedure must in turn raise the costs of production and of prices so that within a short time wage earners will again be just where they were before. We will probably see successive demands for increases in minimum wages and for increases in differential wage rates chasing higher and higher prices.

This use of minimum wage legislation and regulation has thrown suspicion upon the whole minimum wage movement. Questions may now be properly and sincerely asked whether the establishment of the minimum wage has at any point or in any way served either the marginal workers or the common welfare. It has become increasingly clear that minimum wage regulation in its present use has become a dangerous cause of inflation. This, then, is one of the factors that should receive the most careful consideration in the development of sound management-labor relations, relations which should be in the interest of the public as well as of employees and of employers.

In conclusion, let us never forget that inflation is a result, on the one hand, of too much money, or purchasing power, and, on the other, of too little production. Every increase in the costs of production that is unaccompanied by increased productivity, however that productivity is obtained, must inevitably be followed by higher prices. Wages and salaries make up by far the largest share of the costs of production. Every increase in wages and salaries without accompanying increases in productivity are purely and dangerously inflationary.

The artificial increase in wage payments forced by union monopolies is the new factor in the present inflation. This inflation is due not merely to an increase in the amount of government currency, but also in the amount of purchasing power paid to wage and salary earners in excess of what they formerly received and for which there is no equivalent in increased productivity. Let us face the fact that this is as surely inflationary and as dangerous as the issue of unregulated and unsecured government paper money. It will take us over exactly the same road to the same destination, economic disaster.

If there were any other nation desiring to see the strength of this country dissipated and reduced to second-rate importance, there would be no better way by which this could be accomplished than by the debasement of our purchasing power and the destruction of our confidence in our own government. I sometimes wonder if this may not be the purpose of some of those who advocate wage increases without increases in productivity.

Finally, let us get together on our understanding that the fixing of minimum wages by legislation is one of the shrewdest and most effective devices ever invented not merely for raising the basic wage rates of industry, but also inevitably and almost automatically of all of the differential wage rates, up through the entire wage structure. At the end of each cycle of wage increases, prices will be proportionately increased, the value of the dollar will have been depressed still more. Wage earners will be precisely as bad off as they were before. But, and this is important, every one possessing savings or other means bearing the dollar sign will be worse off. The one sure effect of inflation is to liquidate all thrift and to equalize poverty for all. This clear understanding of inflation is, I believe, essential as the first step in combatting this evil. When we stop groping and start seeing clearly, we shall promptly see what is to be done about the inflation.

Halsey Stuart Group Offers Utility Bonds

Halsey, Stuart & Co., Inc. and associated underwriters offered publicly April 28 $14,000,000 Wisconsin Michigan Power Co. first mortgage bonds, 3% Series due 1978 at 100.875% and accrued interest. The group won award of the bonds at competitive sale on a bid of 100.3299.

Net proceeds, together with proceeds from the sale of $1,000,000 par amount of common stock to be sold at the par amount to Wisconsin Electric Power Co., its parent, and from $1,000,000 in bank loans, will be applied to the redemption of $12,500,000 of 3¾% first mortgage bonds due 1961; prepayment of $200,000 in bank loans; and toward the company's construction program.

The bonds are redeemable at prices ranging from 103.875% to 100.13% and at special prices scaled from 101% to 100.05%.

Management's Task Toward Economic Stability

(Continued from page 20)

to 12 months, with a consequent saving in investment for factory capacity per ton of seed and—what is even more surprising—an improved yield and quality of the oil produced from the seed. This steady employment of course results in keeping trained men on the job instead of having to train a new crew of men every crop season.

85% of Goods Consumed Evenly

I have been talking about soap and shortening, but I would like you to cast your mind over the things in use in our country. If you do, you will realize that 85% of the goods used in this country are consumed evenly. The difficulty is to find the merchandising plan and the production and storage plan that will let you carry out the evenness of production which brings about stabilized employment. I know it is harder in some industries than others, but when I see the meat packer do the job, a shoe manufacturer do the job, and many others do it, I think ways and means can be found in most of our economy to follow through if we will only concentrate on it.

It is very difficult for the average manufacturer to face the problem in his own shop. He will say: "Yes, you can do it in soap, you can do it in a packing house, but our business is different." Now that attitude will never get the country anywhere, and I think I would like to add that it will not get the manufacturer anywhere in the economic operation of his business.

There are so many benefits to be derived from steady production that it is hard to enumerate them. I'll just take one problem that must be bothering a lot of manufacturers today, and that is the cost of plant and equipment. Proctor & Gamble is running its plants and equipment at a full 90% capacity or better by running uniformly. If we had ups and downs in line with the common trends, we would be operating at times on a 50 to 60% basis, which would automatically force us up to 130 and 140% to catch up later. There would be no way to do this except to have 30 to 40% increased plant capacity over what we have now and I can tell you, in our own show, that extra capacity would cost over $100,000,000 in plants and equipment. Let's put it another way: we have saved the investment of $100,000,000 plus in our own business by operating steadily. Certainly we have a much more satisfied group of workers which also helps cut production costs.

Then from a buying standpoint we are able to buy more cheaply, because we can place orders to come through every week of the year and we have lowered our costs in that way. It stands to reason we have influenced steady employment in the plants of suppliers and it is my belief that it is a very worthwhile thing. Stability in one plant works in widening circles. If it is ever put into effect on a large enough national scale, it will ultimately exert a tremendous direct influence in stabilizing the economy of the entire country.

Whenever I discuss this subject, I am always compelled to say that a man who makes a primary product is, more or less, at the mercy of the processor. I mean by that a steel company, a foundry, or business like that. If we are going to have sporadic buying in raw steel, those companies which manufacture the raw steel are almost helpless. There is no use talking about steady employment in those basic industries unless we processors, who take the raw product, will regulate our business and the goods which we take from them.

Guaranteed Wage Differs From Steady Employment

I say to you men of the press you can be of great help in this particular problem which is so basic to the national economy. You can set the public straight on the difference between a guaranteed annual wage, which I don't think many of us believe in, and steady employment. Right here let me emphasize this distinction. Our company guarantees employment. It does not guarantee a specific annual wage.

You can emphasize the basic point that manufacturers should study the problem and do everything possible to plan their production to the consumption line.

You can emphasize to manufacturers the great savings in producing evenly rather than in indulging in the wastes of "peak and valley" production.

You can point out the great value to the worker and the community through employees who know they have a steady job and can count on a certain number of weeks' work per year. You can stress the difference in the type of citizen who has a reasonably well assured yearly income versus one who doesn't know from day to day what his income may be.

You can lend your strength to the procedure of orderly production of homes, government projects, railway cars and equipment, and automobile manufacture, etc. This type of construction just about sets the pattern of our whole economy.

You can educate, enlighten, and influence manufacturers and the public to believe that these great spurts of production beyond the consumption of goods must inevitably bring unemployment, thereby causing trouble to the people of the country.

Above all, you can point out to the public that stabilized employment is something that must be worked out eventually on a national basis, as it has been worked out successfully already in some industries—**worked out by business management—not by government—not by legislation.**

In putting your influence back of the solution of this great problem, you will be contributing a very great deal to the insurance of a freeman society in this country of ours.

Detroit Edison Stock Offered at $20½ Share

An underwriting group headed by Coffin & Burr, Inc. and Spencer Trask & Co., as representatives, on April 22 offered 450,000 shares of $20 par value capital stock of The Detroit Edison Co. The stock priced at $20.50 per share, was quickly oversubscribed.

The shares offered were owned by American Light & Traction Co. and no proceeds of the offering will accrue to The Detroit Edison Co. The offering was made pursuant to an order of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935.

The Detroit Edison Co., established in 1903, is the only utility selling electric light and power in the city of Detroit. It serves an area of 7,587 square miles in and around Detroit with a total population estimated at 3,025,000. The company is also engaged in the steam heating, gas and water service business but the electric service department has accounted for more than 95% of the gross revenue for the past several years.

Who Killed Horatio Alger?

(Continued from page 2)

ers are likewise specialists and sometimes it appears that the "facts" which one teaches haven't much to do with the facts that another teaches in a different classroom about another subject. The pupil has a tough time putting them all together into a body of useful knowledge to help him live in this complicated world.

The Key Role of Education

All of which brings us to what might be a vital clue to our original question of why we have so much doubt and misunderstanding of our extraordinarily successful system and why we have lost sight of the Horatio Alger element in it. Maybe the reason is that we have become so absorbed in the day-to-day complexities of living in and operating our modern free democratic society that we are neglecting the job of explaining it to each oncoming generation.

It is startling to stop and realize for example that there are millions of young people around who simply haven't had the time nor the opportunity to learn all of the things it takes to understand and appreciate our way of living in this country.

For instance, not counting the millions of "children," there are some 36,000,000 persons in this country—more than a third of the adult public—who are between 20 and 35 years of age. This group also includes almost all the "public" who were recently engaged in defending our American way of life, including our free enterprise business system. Now, consider that in 1930 all these people were themselves either small children or were just beginning to be adults. This means that virtually all their sense of values —their concepts of what is important or unimportant about democratic government, free enterprise, private property, social and economic freedoms of the individual have been formed during:

An era of one domestic political regime, dedicated in large part to a modification of many traditional concepts of American life;

An era filled with sinister and despotic, but nevertheless dramatic, economic and social experimentation all over the world;

An era marked by instabilities, doubts and uncertainties which in turn have engendered cynicism and scoffing on the surface of our society and made possible steady "boring from within" by those who thrive on such conditions;

A era highlighted by closed banks, idle factories, NRA, plowed-under pigs, technocracy, ham-and-egg political platforms and something-for-nothing economies.

Obviously, the platitudes about the good old days of free enterprise do not mean the same to this public as they mean to the average businessman. The current public just wasn't around in the good old days of free enterprise.

Everybody Starts from Scratch

It is hard to realize that every new-born baby is a barbarian. And each successive year's crop of baby citizens has just that much more to learn before he or she can "catch up" with the accumulating knowledge that it takes to understand and participate in our modern society.

And just as the economics of our lives and the functions of our jobs and our business system are growing more complex, so are many other phases of life. But here is the crux of the matter: *over a period of recent years less and less attention has been paid in our educational system to teaching the oncoming generations of youngsters how we live and work together in a free democratic economy based on private property ownership, production for profit, productivity incentives and a free competitive market.*

Any objective person can quickly discover for himself that:

(1) Not only does the average school curriculum and its textbooks provide a completely inadequate description of how our free society produces, distributes and consumes its goods and services and rewards its various participants for their individual roles; but

(2) That a great many textbooks, and a goodly number of teachers, too, are teaching ideas and theories about how we live and work together that are actually *contrary* to the principles and operations of our free democratic system.

Indeed, The Armed Forces Institute withdrew from use one of its official texts on economics when it was called to their attention by the National Small Business Men's Association that the book contained numerous teachings of pure socialist dogma. Yet this text was officially recommended by a group of educators and is still widely in use in our school system.

A Direct Challenge to Businessman

Who is going to do anything about this whole educational situation? As a rule, it is the mothers in a community who are chiefly concerned with school matters and children's education. But it is a demonstrable fact that, in spite of their school interest and good intentions, women are among the least informed about our economic and our business system.

It is also an obvious fact that the school officials and teachers themselves either cannot or will not do much about it since they are the ones now doing a progressively less adequate job of informing successive groups of graduating youngsters on the operations, values and rewards of our type of economic society.

The conclusion is inescapable that unless and until the businessmen themselves in every American community—the production managers, the merchants, the technicians, the professional men, the foremen and indeed the working men whose sons and daughters have an equal stake in our system along with the children of the wealthiest citizens—take a far more active and responsible role in guiding our school system and its program, the job will not get done.

It is ironic that the vast majority of members of local school boards in this country today is actually made up of businessmen and professional people — men who not only are the chief owners and beneficiaries of our system, but who also are the men who make it work. They are the getters - of - things - done in their hometowns. But they seem to get around last to problems involving education, especially to education about business in contrast to education about the other "arts and sciences."

As a commentary on the mild interest taken by businessmen in our educational system, only two out of the past 51 graduation exercises held in the schools of one large American city have been addressed by businessmen. Two others have been addressed by osteopaths; one by a registered nurse; and about 20 by labor leaders.

In contrast to this business-education relationship in America, it is worth noting that the number one concern of all competitive, dictatorial systems is ceaseless and complete indoctrination of their young people. Not only do they teach them the complete theory and principles of their communistic economic life, but they teach them *almost nothing else*, except blind obedience to arbitrary authority.

Today our educational system is the weakest link in our struggle to defend our American way of life.

—It is the weakest support of our free enterprise system.

—Yet it is supported almost exclusively by the proceeds of our wealth-producing economy run by businessmen.

—It is the common responsibility of every citizen and parent.

—It is something that practically every citizen, irrespective of his job or station in his community can do something about.

—It is something that businessmen in particular should do something about, and the time is long overdue.

If You Are a Businessman

One of the best things you can do to insure that your business and the other privately owned and operated enterprises in your community will continue as free institutions is to see to it that the young people who are next in line to take over their ownership and operation understand the rules of the game. Our peculiarly successful economic system is neither perfect nor sacred. But without it none of the other free institutions which we do hold sacred and inalienable will very long endure.

In short, the values at stake more than justify a reasonable amount of the time of even the busiest business citizens devoted to strengthening the school systems of our communities. And it takes more than mere tax dollars.

Things You Can Do

Why not begin in your town by talking things over with your business associates and neighbors. Then make it a group project, either informally or through some suitable local organization, to look into your own community school system.

As a starter visit the schools themselves. Talk to the principals and teachers. They'll be surprised to see you but appreciative of your interest. Get acquainted with the school board members too. They likewise will welcome your sincere and constructive interest in what is too often their thankless job. And the PTA, usually struggling along on the efforts of a half dozen mothers for every one interested father, will indeed be glad to see you.

But don't overlook the most important ingredients of any school system—the kids and what they're learning. Visit some classes, talk to the students, read some of the books and study some of the lessons yourself. Maybe a series of committees to do the job thoroughly is in order.

As a guide line for your inquiry, ask yourself: "Will a youngster going through our town's school system come out with a pretty clear idea of:

How our system operates to create wealth, jobs, goods and services to support our complex society.

How its components are owned and its products divided.

What the accepted roles and responsibilities are of capital, management, labor and government in our society.

Why our arrangement of these factors is so demonstrably superior to competitive "isms" and "ologies."

What opportunities and rewards the system holds for individuals growing up in it and *why*.

Why constant vigilance is necessary to guard against the panacea artists who constantly suggest "a little change here and there" to have the government "guarantee" something that can only be assured by the individual's own work and thrift.

You will find such inquiry a rewarding and revealing experience. And you may well be astounded at what is *not* in the textbooks, nor in the student's heads, about things that you assumed "everybody" knew about the simple basic things in the business world that *you* take for granted every day.

Perhaps you may decide that the schools can never fully acquaint students with the facts of life in your world of business and still teach them all the other things they need to know. So why not organize a program of plant tours, "career forums," or special meetings with local business associations where at least the high school students, soon to graduate into responsible citizenship, can find out first-hand what makes the economic world go round in their home town.

You know, but don't take it for granted that they do. People and nations have died from taking things for granted; and free enterprise, like Horatio Alger, may some day die—of ignorance.

So much for that. Now let's take a look at "Small Business and the Scarcity Market." One thing we can be sure of is that as long as there are scarcities, small business, particularly small manufacturers, are going to be in the middle fighting for their very existence.

But I have great faith in the American small businessman. In addition to being the personification of the rugged individualist, he's also a hard working, ingenious, resourceful person who's mighty hard to beat when he really makes up his mind that he is not going to be licked.

I'm not nearly so much concerned about the effect of shortages and scarcities of various kinds on small business as I am over the lack of interest displayed by most small businessmen in public affairs. Many of them look at me like they thought I was completely off my nut when I say that our whole free enterprise system is in jeopardy.

They know that our capitalistic system has produced more of everything for everyone than any other system which has ever been tried at any time, any place since the beginning of recorded history. They know that they have always had freedom of enterprise and they don't seem to be able to understand that a day may come when they won't have it.

Some of you may feel as they do, that I'm an alarmist and a calamity howler. If any of you do feel that way, may I suggest that you make a comparison between the way business in this country was done 20 years ago and the way it is done today. If you do this, and then project that curve into the future, I believe you will realize that another few years of travel along the same road in the same direction at the same rate of speed will entirely eliminate free enterprise from the American scene.

What's the answer? I'm not sure I know all of it, but here are a couple of things in addition to straightening out the schools which you can help do that will greatly aid the preservation of free enterprise in this country.

But first, why is this country where it is on the road to the left? I think the answer to that question can be given in one word ignorance. Not nearly enough of the American people understand the facts of life concerning the operation of our capitalistic economy.

Every businessman knows what freedom of enterprise means to him, but how many of those on his payroll know what freedom of enterprise means to them? Not very many, notwithstanding the fact that it's just as important, if not more important, to sell the system which makes possible the production and distribution of goods and services as it is to sell the goods and services themselves.

We all know that the judgment of any executive is no better than his information, but far too many of us entirely overlook the fact that exactly the same thing is true of a punch press operator, a machinist, a brick layer, plumber or truck driver. If their information is not right, their judgment cannot possibly be sound.

If this is true, then it's your responsibility and my responsibility to see to it that those on our payrolls do know what freedom of enterprise means to them. And one mighty good place for us to start our educational effort is by giving our employees accurate, easily understood factional information concerning the operation of our companies. Here are a couple of simplified financial statements prepared for distribution to employees. And if your employees are not now receiving this kind of information, I urge you with all of the emphasis at my command to see that they get it in the future.

The second step in your educational effort should be a regular and steady flow of material on free enterprise, what it is, how it operates, who benefits and why, to the home of every employee. Our associated organization, the Small Business Economic Foundation, puts out a continuous stream of this kind of material, all of it designed and written for employer distribution to employees. Some of the pamphlet titles are: "Let's Get on With the Ball Game"; "Dollar Dilemma"; "One Man Crowd"; "Little Man in the Middle"; "How We Prosper." All of these pamphlets are available in unlimited quantities at nominal cost. I'll be glad to send a set of them to any one who is interested.

The second thing which very badly needs to be done and which each of you can help do is to drastically reduce the size, power and authority and cost of government. The American people now spend more each year on government than they do on food. If that isn't a danger signal to end all danger signals, then you'll have to tell me what it is.

We are told that the cost of government cannot be cut now what with the preparedness program, aid to Europe and the subsidizing of socialism in Britain, to all of which I say, nuts!

I'd sure like to have time to take several large patches of hide off this Marshall Plan, but if I get started on that we'll be here all night. So I'll pass it up except to say that in my judgment the money we are pouring into Europe now is not going to be any more successful in preventing the spread of Communism and World War III than the $15 billion we invested in the Dawes Plan in 1924 and the Young Plan in 1930 in preventing the spread of bolshevism and World War II. Sure we need to help Europe, but our help should be held up until Britain and the other countries have first done what needs to be done on their internal affairs so our help can really do some good.

I'm not impressed with the war scare. Do you remember the depression we were going to have the minute after the war ends? Everyone talked about it; it was the best advertised depression this country had ever known and then it didn't happen. I think exactly the same thing is true of war with Russia. It's the best advertised war we've ever had, and like the depression which did not occur as advertised, it is not going to happen as advertised. Mr. Truman has taken a leaf from Mr. Roosevelt's book of emergencies. He's trying desperately to get the people so badly scared that they'll re-elect him. Personally, I don't believe even the devil himself could do that.

There never will be a time when it is possible or convenient for our public officials to reduce the size, power and authority or

cost of government so long as this is left to them. Don't forget that Republicans are just as fond of patronage and big spending as are the Democrats.

When the businessmen of the country, particularly the small businessmen, rise up and demand that a million bureaucrats be fired and that all expenses of every subdivision of government be drastically reduced, then and not until then will our public servants quit using shovels to throw away the taxpayers' dollars.

We must all take a far greater interest in public affairs and in our educational institutions in the future than we have taken in the past if we want to continue our republican form of government and continue to enjoy the fruits of freedom of competitive enterprise.

In closing, I want to give you my definition of our American way of life.

Our American way of life is made up of many things, bathtubs and automobiles; big cities and small towns; farms and victory gardens; mammoth steel mills and village machine shops; colossal educational institutions and the little red school beside the road; churches and hospitals; railroads and air lines; chewing gum and ice cream; department stores and crossroad general stores; specialty shops and beauty parlors; pool rooms and race tracks; Hollywood, Broadway and the high school play; laughter and sorrow; eagerness and despair and people —millions of all kinds of people— gathered together from all over the world, drawn by the magnet of Freedom, Opportunity and Justice.

Our American way of life provides each individual an opportunity to go as far and climb as high as his willingness to work, his skill, ingenuity and integrity will carry him.

Our American way of life recognizes that the individual has the right to work when and where he wishes, the right to worship as he pleases, to speak his mind on any subject, to meet with his fellow men for any peaceful purpose, to be secure in his possession and to have his day in a free court. It also recognizes that the individual is superior to the State, that our public officials are servants of the people and that they derive their just powers from the consent of the people.

These things taken together created an atmosphere of freedom and an economic climate which made possible in the United States the greatest production and diffusion of wealth in the history of the world, and the establishment, for even the lowest paid workers, of the highest standard of living the world has ever known.

Why? Because for more than one hundred fifty years, free men in a free country have been working together to provide this better way of life. Let us hold what they have given us and go forward in the sure faith that the American way of life is the greatest blessing known to mankind any place on the face of God's earth.

FIC Banks Place Debs.

A successful offering of two issues of debentures for the Federal Intermediate Credit Banks was made April 20 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $25,000,000 1.45% consolidated debentures dated May 1, 1948 and due Oct. 1, 1948, and $54,570,000 1.55% consolidated debentures dated May 1, 1948 and due Feb. 1, 1949. Both issues were placed at par. Of the proceeds, $29,885,000 will be used to retire a like amount of debentures maturing May 1 and the balance of $49,285,000 is new money. As of May 3, 1948, the total amount of debentures to be outstanding will amount to $485,055,000.

The State of Trade and Industry

(Continued from page 5)

The decision was no easy one. There was no assurance that companies selling raw materials to U. S. Steel will reduce their prices. Equally serious to U. S. Steel is the certainty that they will not know what gamble they have taken on their employee relations until the time for the next labor contract comes up.

There is resentment in steel labor circles. This is true because coal miners have almost always been able to get what they asked for. U. S. Steel will face this resentment next year. It seems certain this week that two-year contract periods are out the window. It was this part of the contract that tied Philip Murray's hands. With a firm "no" he could do nothing but accept and charge that there had been no real collective bargaining on the wage question, "The Iron Age" points out.

U. S. Steel Corp., whether its plan is an immediate success or not, has stopped the third round of wage increases in the heavy industries unless reconsideration comes later.

For a great many steel companies the new freight rate boost will add 50¢ to the cost of raw materials going into a ton of finished steel. Some will get off easier but others figure it nearer to 75¢. Under present circumstances it is not likely that this increase will immediately be passed along to the consumer, this trade authority adds.

The new rate on steel products—50% higher in the East than in late 1946—will have its most serious effect on fabricators who have been depending on mills at some distance from their plants. A scramble to turn up new sources to replace suppliers forced to withdraw from distant markets is in the making.

Steel firms will study closely the Supreme Court decision which ruled against the basing point setup in the cement industry, since the Federal Trade Commission has a similar case against the steel industry. If the basing point system should eventually be ruled out in steel the dislocation of marketing and selling practices would be severe for the steel firms and their customers, the magazine concludes.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 86.6% of capacity for the week beginning April 26, 1948, an increase of 6.6 points, or 8.2%. This compares with 80.0% last week. A month ago the indicated rate was 88.3% revised.

This week's operating rate is equivalent to 1,560,900 tons of steel ingots and castings as against 1,442,000 tons last week, 1,591,600 (revised) tons a month ago, 1,686,900 tons, or 96.4% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

FREIGHT LOADINGS SHOW SHARP RISE FOR WEEK

Loadings for the week ended April 17, 1948, totaled 785,668 cars, according to the Association of American Railroads. This was an increase of 101,816 cars, or 14.9% above the preceding week. This increase over the previous week was due to partial resumption of coal production and heavier ore loadings. They represented, however, a decrease of 80,176 cars, or 9.3% below the corresponding week in 1947, but an increase of 134,825 cars, or 20.7% above the same week in 1946 when coal loadings were severely reduced by labor troubles.

ELECTRIC PRODUCTION LOWEST SINCE JAN. 3 WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended April 24, 1948 was 5,027,280,000 kwh., according to the Edison Electric Institute. This was 59,546,000 kwh. below the 5,086,826,000 kwh. turned out in the preceding week and was the lowest output reported since that for the week ended Jan. 3, 1948—a holiday week—in which period 4,868,011,000 kwh. were produced. The peak was reached in the Jan. 24, 1948 week when production totaled 5,436,430,000 kwh. The April 24 week figure was 359,283,000 kwh., or 7.7% in excess of that for the corresponding week last year and was the 16th consecutive week that output exceeded the 5,000,000,000 kwh. mark.

AUTO OUTPUT HIGHER FOR WEEK NOTWITHSTANDING COAL STRIKE

Production of cars and trucks in the United States and Canada last week advanced to an estimated 105,242 units from last week's 104,761 (revised) total, according to "Ward's Automotive Reports." This compares with 102,447 units in the like week of 1947 and 108,165 in 1941.

The agency warned, however, that the coal mine dispute may cost upwards of 300,000 cars and trucks.

Commenting on the coal-steel situation, Ward's said "both General Motors and Chrysler will lose at least two full weeks of production and that Ford's near-future prospects appear adversely affected by reduced deliveries of steel and iron." Ford currently is changing over to 1949 model cars.

General Motors will close a number of plants starting tonight in lay-offs to affect about 200,000 workers.

NEW BUSINESS INCORPORATIONS OFF 10% IN QUARTER

New stock company incorporations increased during March as compared with the short February month, but fell below the corresponding 1947 period for the third month in succession. March charterings in the United States totaled 9,346, according to the latest compilation by Dun & Bradstreet, Inc.

This represented a gain of 18.7% over the February figure of 7,873, but it was 8.8% below the 10,247 recorded in March 1947.

New business incorporations during the first quarter of 1948 aggregated 28,219 as against 31,470 during the like period of 1946, a drop of 3,251, or 10.3%. Thirty-five states showed a decrease in the rate of incorporations during the first quarter of this year as compared with a year ago, while 13 reported advances.

BUSINESS FAILURES SHOW LITTLE CHANGE

Varying only slightly from the previous week, commercial and industrial failures numbered 100 in the week ending April 22, reports Dun & Bradstreet, Inc. This total compared with 101 casualties a week ago and 66 in the corresponding week of 1947. While businesses failing were over five times as numerous as in the low years of 1945 and 1946, they fell far short of the pre-war level, claiming less than a third as many as the 326 occurring in the comparable week of 1939.

Failures involving liabilities of $5,000 or more continued to predominate, while small failures with losses under $5,000 increased. In both size groups, the rise from 1947 was marked, with the larger casualties up from 56 a year ago and the small casualties twice the 10 reported in the same week of that year.

A slight decline occurred in retailing and wholesaling failures, but mortality in all other industry and trade groups increased. Despite a downturn from 47 last week, retail trade with 40 had the largest number of failures, almost twice as many as last year. The week's sharpest rise appeared in commercial service where 16 concerns failed, two times the eight a week ago.

FOOD PRICE INDEX RISES 1.3% IN LATEST WEEK

The steady rise in foods during the past month and a half, with the one exception of a mild drop recorded two weeks ago, has carried the Dun & Bradstreet wholesale price index for April 20 to $6.85, the highest level since Feb. 3 when it stood at $7.14. This represents an advance of 1.3% over the $6.76 of a week ago, and a rise of 3.6% over the Feb. 24 and March 9 low of $6.61. At this time last year the index registered $6.06.

COMMODITY PRICE INDEX TURNS LOWER AFTER EARLY RISE

After advancing to 288.22 on April 15, the highest level since Feb. 6, the Dun & Bradstreet daily wholesale commodity price index turned downward to stand at 286.80 on April 20. This compared with 286.14 a week earlier and with 257.74 on the comparable date of last year.

Irregular movements featured the leading grain markets last week with corn again taking the spotlight.

Wheat prices closed slightly below a week ago after fluctuating nervously. The bread cereal displayed considerable resistance to the downward pressure at times, aided by continued buying of cash wheat by the government, coupled with reports of continued hot and dry weather over a large part of the southwestern wheat belt. Corn was the leader in activity. Prices rose steadily most of the week but turned downward in late dealings to finish sharply below a week ago. The decline was prompted largely by profit-taking, increased receipts at terminal markets and slow processor demand. Flour prices held in a narrow range as most buyers continued to limit purchases to nearby needs. Lard showed strength as prices advanced to best levels in more than two months, aided by better domestic demand and expectations of heavy government buying of fats and oils. Hog values, however, trended sharply lower due to extremely heavy market receipts. Cattle prices were steady while lambs finished sharply higher. Coffee prices were steady and firm all week, but cocoa showed some easiness at the close.

Cotton markets continued strong with prices reaching new high ground for the season.

The New York spot quotation showed a net rise of 42 points for the week, following a gain of 128 points in the preceding period. The market was buoyed by strong speculative demand and fairly active mill buying induced by recent improvement in textile markets. Another factor was the prospect of a tightening supply situation before the new crop begins to move.

Activity in cotton textile markets was relatively quiet last week with volume of sales considerably below that for the previous week. Prices showed little change from a week ago.

RETAIL AND WHOLESALE TRADE MODERATELY HIGHER FOR WEEK AND ABOVE SAME PERIOD OF 1947

There was a moderate increase in consumer purchasing during the period ended on Wednesday of last week and total dollar volume continued to compare favorably with that of the corresponding week a year ago, according to Dun & Bradstreet, Inc., in its current survey of trade. Summer clothing attracted considerable attention in some areas and continued mild weather encouraged the buying of seasonal merchandise. Consumers remained selective and stressed good quality at moderate prices. Collections generally, it was revealed, were prompt.

Promotions of lightweight clothing attracted many shoppers, with jackets, coats and dresses selling well.

Spring millinery remained popular and gloves and handbags were in large demand. Response to clearance sales of furs was slight and the buying of jewelry and other luxury items remained somewhat sluggish. Men's suits sold well with emphasis on seersucker and worsted gabardines. There was, however, some resistance to high-priced items. The demand for shoes continued to be somewhat below that of a year ago.

Food volume was steady and high, with patronage of small independent stores somewhat on the increase.

The buying of fresh fruits and vegetables moderately exceeded that of previous weeks, with dairy products continuing to sell well. Many housewives increased their purchasing of canned foods, with meat and butter substitutes continuing to be sought. A slight decrease in the demand for confectionery and baked goods in some areas was attributed to warm weather.

Notions and articles for interior decorating were heavily purchased, with spring cleaning preparations continuing to sell well. Hardware volume increased moderately, with promotions stressing gardening tools and equipment. Seeds, bulbs and shrubs were also in large demand. Lawn and porch furniture was steadily purchased and awnings and summer rugs attracted favorable attention.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 8 to 12% above that of a year ago.

While there was a slight decline in buyer attendance at the wholesale centers, the volume of mail orders for most types of merchandise increased considerably. Many retailers sought to replenish their stocks of spring and summer goods with the result that total order volume for the week somewhat exceeded that of the preceding week. Wholesale dollar volume was moderately above, while unit volume was almost unchanged from the 1947 level.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended April 17, 1948, increased by 8% from the like period of last year. This compared with an increase of 13% in the preceding week. For the four weeks ended April 17, 1948, sales increased by 6% and for the year to date increased by 6%.

Here in New York retail trade was active last week stimulated by promotional merchandise for seasonal selling. Wholesale markets on the other hand displayed a cautious tendency with a greater emphasis than heretofore on middle-priced goods.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to April 17, 1948, increased 6% above the same period last year. This compared with an increase of 10% (revised) in the preceding week. For the four weeks ended April 17, 1948, sales increased by 5% and for the year to date by 5%.

The Prospects for a Bull Market

(Continued from page 4)

ments must result from a given set of economic and financial circumstances. The errors might result from the fact that the elaborate statistical studies cannot and do not predict human psychology.

Without attempting here to prove the thesis, it is suggested that sudden slumps occur when, and only when, serious optimistic excesses have occurred. The liquidation of these excesses, whether they be an over-production of goods, over-extension of credit, or over-speculation in securities, is started by the first who take fright. Depending upon the degree and extensiveness of the excesses, liquidation spreads and at some point becomes forced and this generates the well-known law of the falling market. The losses are purely financial, but they depress, in time, the more basic, physical, economic activities.

Optimistic Excesses Lacking

Before looking for excesses in the present boom we ought first to realize that excesses are relative. A production of 3 million passenger cars would probably have been excessive in 1919, but it was not excessive in 1927.

To describe present production of goods as excessive it is said by some that current incomes and savings are not large enough to move current production at current prices. One proof depends upon a statistical analysis which applies a consumers' price index to individual take-home pay which which shows that real wages have been declining since 1944. Such an analysis shows only that the cost of living index has been rising faster than the average income of wage earners. There are many perils in drawing conclusions from aggregates and averages, but the conclusion may be more easily refuted on other, general grounds.

In the first place, the outcome of this state of affairs may be a further rise in wages rather than a collapse in prices.

One who fears, on the basis of aggregates, that personal incomes and savings are insufficient to purchase current production ought to consider, for one thing, that in the aggregate, consumers have resources in Savings Bonds alone of over $52 billion, of which $31 billion are in Series E Bonds. These figures are respectively 28% and 17% of the annual rate of $184 billion of disposable personal income in the fourth quarter of 1947. These Savings Bonds alone, if consumers choose to cash them and spend the proceeds, could take care of any possible aggregate deficiency in incomes for a long time. But, again in the aggregate, people were still saving money in 1947. In the fourth quarter they were doing so at the annual rate of $11.2 billion.

What is one man's cost is another man's income. If the rising cost of food progressively prevents more and more people from buying automobiles, it means for one thing that there is a shift in the flow of incomes from those in the automobile industry to those in the food industry. Money spent for food does not disappear from the economy. And if those in the food industry do not buy enough additional automobiles to compensate for the loss in sales to those who could no longer afford them, then, of course, all other things being equal, there will be a drop in the production of automobiles. But, that, in turn, of itself, need not cause a drop in the total national product. It depends upon what those in the food industry do with their money. What we are concerned with here is the possibility of a slump in the total economy.

Slumps in individual lines, like radios, appearing successively, are not bearish on business as a whole. Such developments have been called selective adjustment. One might theorize that an economy could continue in good health indefinitely so long as adjustments are successive rather than simultaneous.

In spite of the rise in the cost of food, the figures on food consumption show that the present proportion of incomes spent on food is voluntary on the part of consumers, and not forced, as some suppose. The per capita consumption of meat, for example, was about 156 pounds both in 1946 and in 1947, as compared with 131 pounds in 1929 and 133 pounds in 1939. Most of the improvement in diet obviously has taken place among those of lower incomes. In continuing to purchase more of these higher-priced foods than they used to before the war, evidently they feel that their present incomes are adequate to maintain the better standard.

It is said that now that pipelines are filled the stimulus of inventory accumulation is about to disappear. This, however, does not foretell a general, serious deterioration in business conditions, since the building of inventories is not a requisite to any particular level of business activity. Present inventories, incidentally, are not excessive relative to activity. Manufacturers' inventories, for example, are 2.4 times as large, in value, as they were in 1939, but the present rate of gross national product is more than 2½ times that of 1939. At the end of 1947 department store stocks, seasonally adjusted, were 2.8 times, in value, their 1935-39 average, but their sales, seasonally adjusted, were more than 3 times as large as they were in that period.

The word "pipeline" is a gross metaphor which, like all metaphors, is rather useless for accurate analysis. Those who describe filled pipelines will realize, if they extend their metaphor, that all piping systems work best when they are filled. Furthermore, are the steel, automobile, oil, gas, electric power, and housing pipelines filled?

A high general level of production is not in itself an excess that has to be liquidated. Production produces not only goods, but also a corresponding purchasing power. That purchasing power is, to a large extent, free to choose its outlets. Over-production is a relative matter of prices competing with other prices. Relative over-production in one field need not bring down with it the whole economy. The bear market in movie stocks last year did not prevent a bull market in oils.

This writer rejects the Marxian doctrine and its derivatives which contend that private capital enterprise must inevitably meet periodic crises of over-production. This is not the place to argue the refutation. It is mentioned only because we have been, perhaps unwittingly, infected with that thinking, just as we have been infected with related doctrines that have influenced economic legislation in this country, of which our self-destructive tax schedule is only one example.

We have been unused to full peacetime production and employment in this country for so long—16 years—that we are unduly frightened by it.

The present high level of production is not only filling current needs, but is also compensating for the neglect of plant, equipment and housing since the great depression. It is attempting to accommodate the requirements of a population that has increased 22 million, or 18%, since 1930, and 13 million, or 10%, since 1940, and the demands of the rest of the world. For years we shall be called upon to fill the void left by the great producing and trading nations of England, France, Germany and Japan.

The postwar boom is only two years old. That is hardly time enough to generate general excesses of optimistic speculation, in view of the size of the demands.

As there has been no general excess of production, so too there has been no excess of optimism in the stock market, where the lack of bullish speculation is so well known that it is unnecessary here to provide the proof in figures.

Savings and Capital Investment

Concern is being expressed over the fact that the rate of savings has declined sharply. This, it is said, will restrict the industrial activity resulting from capital formation. Annual personal savings, as estimated by the Department of Commerce, have steadily declined from a peak of $35.6 billion in 1944, when they were 19.5% of the national income, to $10.9 billion in 1947, when they were 5.4% of the national income. The average annual rate of personal savings during the 1935-39 period was 3.9% of the national income.

It must be obvious that the drastic decline from 1944 is not serious, since that war year was a period of an extraordinarily high rate of saving. In spite of the decline in personal savings, the rate of investment in 1947 remained very high. As estimated by the Department of Commerce, the gross private domestic investment, which includes the acquisition of dwellings, was in 1947 $27.8 billion, 12.1% of the gross national product. The difference between personal savings and gross investment came mainly from business earnings. Expenditures on new plant and equipment in all industries, exclusive of agriculture, was in 1947 $15.7 billion. Expenditures on producers' durable equipment were $17.9 billion, 7.8% of the gross national product, a percentage greater than in any other year on record. These figures on the capital formation in the economy are not highly accurate for a variety of reasons, but they are the best approximations we have. Some figures are given in Table I for purposes of comparison.

TABLE I
(In billions of dollars)

Year	Nat'l Income	Personal Savings	% of Nat'l Income	Gross National Product	Gross Private Dom. Invest.	% of Gross Nat'l Product	Expend. on Prod. Durable Equip.	% of Gross Nat'l Prod.
1929 ------	87.4	3.7	4.2%	103.8	15.8	15.2%	6.4	6.2%
1935-39 avg.	67.0	2.6	3.9	84.0	8.2	9.7	4.4	5.2
1944 ------	182.3	35.6	19.5	210.6	5.7	2.7	5.3	2.5
1945 ------	182.8	29.0	15.8	213.1	9.0	4.2	7.1	3.3
1946 ------	178.2	14.8	8.3	203.7	24.6	12.1	12.4	6.1
1947 ------	202.6	10.9	5.4	229.6	27.8	12.1	17.9	7.8

As Professor Sumner H. Slichter points out, "Never have individual savings been sufficient over the long run to meet the capital needs of American industry."[1]

Moreover, as with many developments, there is a bullish as well as a bearish interpretation of the decline in savings. The bullish aspect of the figures on savings is that they show a strong inclination to spend. It is the consumers' temper and spending habits, after all, which determine the activity of the producers.

Although the figures in Table I are sufficient grounds for arguing that both personal savings and investment have been adequate during the past two years they are only paltry considerations in any discussion as to whether there will be sufficient free capital to finance future capital requirements.

The Government is offering to convert into cash for an indefinite time up to $97 billion of Treasury bonds. These are the bonds which are being supported in the open market. If borrowers and lenders have the will to continue capital expenditures they can easily find the fresh capital to do so so long as the Government supports its bonds. In the vigorous discussions over the policy of market support Mr. Beardsley Ruml says, "I feel it can be taken for granted that the legal powers will be provided to permit the Federal Reserve *to purchase the entire public debt* if it becomes agreed public policy for it to be able to do so."[2] (Italics ours). Such a prospect of another great deluge of money is indeed staggering.

It is said that there is insufficient equity capital. There is at present $600 million in customers' free credit balances with Stock Exchange firms. Early in 1946 customers' debit balances were over $1 billion; now they are only $600 million. In 1946, the year of the largest amount of stock financing since 1930, $1.5 billion of new capital was raised through common and preferred stocks. If investors were disposed to using their cash assets and credit on their present holdings, it is evident that sufficient funds would be available without even resorting to $52 billion of Savings Bonds. A rising stock market would help provide not only the incentive to invest, but also, additions to capital in the hands of stockholders. Though they may not be so sound as real savings and earnings, profits in a rising stock market have furnished in the past considerable amounts of capital.

We hear a great deal about rising interest rates at a time when industry needs still more capital. It is said that money is becoming harder to get, that there will soon be a shortage of capital.

In the meaning intended in the phrase "shortage of capital" capital is a qualitative description of money, not a quantitative description. In a credit and deposit banking system, the quantity available for investment depends, within the limits of the total money supply, at all times, even under the extremes of the best or the worst business conditions, upon the willingness of the holders of money to invest in the future. At the present time private individuals and institutions could, if they would, convert, from bank deposits great amounts, and in other ways fantastic amounts, into investment capital for industry.

The statement that capital is becoming harder to get is, therefore, misleading unless it is qualified by the phrase "at the former price." In an inflation, it is only to be expected that investors, like all others, will ask rising prices. Current corporate bond yields of about 3%, induced by the Government's easy money and support policies, are absurdly low when compared with the rate of 5-6% in the late Twenties and with general conditions today.

Emergence From Pessimism

Because there have been no optimistic excesses so far in the postwar boom, there is no reason to expect waves of liquidation which would seriously depress business activity or send the stock market down. What, then, are the prospects for a bull market in stocks?

In June, 1946, **Barron's** 50 high-grade stocks were selling at 28 times year-ended earnings. That was an all-time high; the corresponding high in 1929 was 21 times; in 1933, 22 times, in 1937, 18 times, and in 1938, 25 times. The peak of 1946 stock prices was clearly expressing an extreme of optimism.

Since 1946 sentiment has steadily deteriorated and the price-earnings ratio of the same group of stocks has steadily declined to 9 times year-ended earnings. This is close to the 1932 and 1942 lows of 7 times earnings, and thus close to an extreme of pessimism. After falling steadily for 15 months the figure has levelled since September, 1947 to between 9 and 10 times earnings.

The broad, long surges of optimism and pessimism towards securities is very similar to the phenomenon in the physical sciences described by the law of mass action. The movement is started by a few who lead; the sentiment spreads contagiously and draws larger and larger numbers with increasing vigor until it reaches a saturation point. Often, but not always, the saturation point occurs in a spectacular climax.

Technical studies, by which we mean analyses of what has been taking place in the market itself, without reference to the causes of such action, show that the pessimism towards stocks has spent itself. One such study is a moving average of the total number of stocks advancing and a companion curve showing the total number of stocks declining. These curves describe the market as a whole, rather than a selected group such as the Dow Index. This is a useful study, which showed, for example, as early as December, 1945, that the 1945 rise was diminishing in breadth. Fewer and fewer stocks were participating in the advance. In June, 1946, this study showed positively that the market had been weakening decisively.

Since the 1946 break, which we shall call the first, we have had two broad downward movements, the second from February to May, 1947 and the third from August, 1947 to February, 1948. In the second decline, the moving average of the number of stocks declining fell short of the first peak, and in the third decline the average again fell short of the second peak. Clearly, downward pressure on the market as a whole has diminished in breadth during each of the past two declines.

Since the 1946 break, we have had two broad upward movements, the first from October, 1946 to February, 1947 and the second from May to August, 1947. In the second rise the moving average of the number of stocks rising exceeded the peak of the first rise. Clearly in the last important rise the breadth of optimism increased.

The condition of the market as a whole has strengthened throughout the long period since the fall of 1946.

We shall not tediously describe other technical studies of the market which show that pessimism has dissipated, that therefore the bear market is probably completed.

There is one interesting circumstance that was characteristic of the past two bear market bottoms, which is so far missing here. At the 1938 bottom, which was spectacular, and at the 1942 bottom, which was unobtrusive, the yield on **Barron's** 50 stocks rose sharply, and for only a very short time, to between 9% and 10%. At the highest in the latest bear market, this yield rose only to 5.8% last February. There is not, however, such regularity in these matters that one should rely upon them. Moreover, that the yield this time did not rise to 9% may be explained by the fact that now the percentage of earnings being paid out in dividends is smaller than formerly.

What, then, are the prospects for sentiment to turn around and rise once more from a 9-times-

1 The State of Business, The Commercial & Financial Chronicle, Jan. 8, 1948.

2 The Interest Rate Problem, The Commercial & Financial Chronicle, March 18, 1948.

earnings level to a 20-25-times-earnings level?

The most important factor in these turning points, which are followed by long-term movement, is fatigue. People weary, both of being bullish and of being bearish, but especially of being bearish. If they have been waiting to buy stocks at lower prices they eventually tire. No particular developments, dramatic, obvious, or otherwise, are necessary to turn the curve of sentiment, but a sharp rise in the market will alert those who have been waiting, and at an early point in the turn we usually have a stampede. As always, however, events will be found to rationalize the change. Many serious and successful students of the marketplace consider these events almost irrelevant. Their attitude seems correct when we recall that in the past the same kind of development has been used to explain both a rise and a fall in the market.

We might mention some prospective developments which would "explain" a rising market.

First, of course, is the prospect of a rearmament program and deficit spending. These, and the Foreign Aid Program, would be obvious in accounting for perhaps a dramatic bull market. The Treasury Department is studying the whole problem of tax revision and there seems to be a reasonable prospect of reform in the double taxation of dividends and in the taxation of capital gains. The recent easing of margin regulations regarding switching in under-margined accounts may be the prelude to later reduction of margin requirements.

Supporting an improving attitude toward common stocks will be continued high earnings and the spreading realization that we are not going to have that depression for some time.

Once sentiment turns upward from the present 9-times-earnings level, precedent suggests that it will not return to it until it has gone to about the 20-times level. The Dow stocks are currently earning at the annual rate of about $19 per share, which is only $1 a share less than they earned in 1929. If our interpretation is incorrect and earnings decline, say to $10 per share, an improving sentiment toward stocks to a 20-times-earnings level would carry the Dow to 200. It would not be strange for stocks to rise while earnings are falling. But if we are correct and earnings continue, then we ought to see the Dow close to 400, which perhaps seems a little too fantastic to discuss now. But the Dow at 300 over the next few years would not be wild speculation, but a moderate ratio of 15 times earnings.

If the Government in its support policy should buy the entire federal debt a spectre presented by Mr. Ruml, earnings and dividends would hardly be any consideration in the conversion of deteriorating money into property through common stocks. The increase in the money supply in this fashion would be more spectacular than it is in deficit spending and the flight from dollars would be spirited.

The Future of Dollar Measurements

It is the thesis here that the present general level of business activity, **as measured in dollars** of national income, will continue, even without a rearmament boom, until we develop gross, widespread excesses of optimism. A rearmament boom would only aggravate the inflation through which we are passing and might finally produce the wild excesses of inflation about which we have been warning ourselves for the past two years. Those excesses might coincide some years hence with the restored production of Europe, at which time we should perhaps begin to look for deflation.

The outstanding financial circumstance of the postwar era, and probably for generations to come, is the gigantic increase in our money supply. As measured by demand deposits adjusted and money in circulation, our money supply amounts to $112 billion, 3.1 times what it was at the end of 1939, 4.3 times what it was in 1929.

As the New Deal discovered, an increased supply of money will not alone produce a comparable rise in business activity. But it is having that effect now, for reasons we shall not fully go into here.

Money is nothing if it is not a claim on goods. As pointed out in a previous article[3] by the writer, the flood of money poured into the hands of virtually all families during the war created the illusion of wealth. That we did not have a straight-line inflation immediately after the war is explained by the temper of the people. They held back their claims on goods so long as they expected the depression that was widely forecast by government economists.

To pay individuals for their wartime labors, the Government had at the end of 1947 created at the banks $67.5 billion, and had added on its books what is called a "debt" of $199 billion. So long as it supports the market for that "debt" a potential $199 billion was created. The $67.5 billion differs from printing-press money in only two respects. While it is out, the Government pays interest on it, and the entry on the books as a "debt" expresses an intention to extinguish that money in time by means of the taxes that will retire the "debt."

That "debt" of $67.5 billion is quite different from the loan between individuals, in which a claim on goods is temporarily renounced by the lender and transferred to the borrower. It resembles, rather, the bank loan, in which there is created a claim on goods which neither the lender nor the borrower has earned. It is sometimes said that the banker simply lends funds entrusted to him. That is not an accurate description, because the original depositor can still use his money after the banker has "lent" it to another. Likewise, as with the bank loan, in the process of paying off the government debt at the banks, the money involved disappears.

To the extent that unearned claims on goods are created, as in the bank loan, and in the government "debt" created at the banks, the previously outstanding, earned claims are diluted. Until the newly created money is extinguished, the old claims have to compete not only with themselves, but with the new claims as well. There is a profound question of ethics in this process, which is scarcely recognized. When the process is done on the scale of the last war the result, of course, is simply inflation. The Government "borrowed" at the banks a quantity of money greater than all the money that was in existence in the country at the time. The value of our money, our claims on goods, has been greatly diluted. That is why, if in 1935-39 you saved $1,000, it is worth in terms of goods today only $500-$600, depending upon what you want to buy. In effect, you have already lost $400-$500. You will get no recompense for half of the services you gave in 1935-39 to acquire that $1,000.

In the past, peacetime booms have been financed very largely by bank loans. In 1929, we produced goods and services valued at $104 billion. To do this we carried bank loans amounting to $4[illegible] billion, and our total supply of money was about $26 billion.

This postwar boom is being financed predominantly by the money created and spent by the Government during the war. The gross national product in 1947 was $230 billion. Bank loans at the end of last year were $43 billion, and our supply of money totaled $114 billion.

Bank credit is both a useful and a dangerous device in modern economies. It is dangerous in that it permits men who misjudge the future to overextend themselves. A sharp fall in markets or in demand for products forces liquidation to protect the bank loans; if the excesses are general, the forced liquidation spreads to other markets to produce widespread losses and then sharp declines in business activity.

Since bank loans in this boom are only one-half as large in relation to the national product as they were in the 1929 boom, for example, they should aggravate declines very much less than formerly. A decline now in any market will not result in the calling in of the wartime-created money. That is why a fall such as we saw last February in the commodity markets will not by itself generate a spreading collapse.

Table II shows the relation of bank loans and of money supply to the gross national product in previous years. It is not intended to suggest that the national product will rise in proportion to the increase in money supply, but it is suggested that ordinary fluctuations in business activity will not for a long time carry the dollar measurements of national product, national income, and corporate earnings much below present levels, for the simple reason that the dollar will be far less valuable than it was before the war. The next drastic decline, if and when it occurs, will probably start from a much higher level of national product than we have now. At that time there will be, however, conditions that will help stabilize income and which were not present in previous slumps. We have written into our economy unemployment insurance, old-age benefits, pension and welfare funds, private hospitalization funds, and deposit insurance. To service its internal debt alone, the Federal Government is annually collecting and redistributing $[illegible] billion, which, incidentally, is not included in the Department of Commerce's summary of national income and product. Under adverse conditions when it would be difficult to collect taxes to meet its expanded expenditures and to service the debt, the Government would again devise a way to print money.

This is not to say necessarily that we are or will be as prosperous as we were in the late 20s, when the national income was less than half what it is now. In many respects, large groups of the population are not so prosperous today as the same groups were then.

TABLE II

(In billions of dollars)

Year	Gross National Product	Total Loans All Banks End of Year	% of Gross National Product	Money Supply End of Yr.	Ratio of G. N. Prod. to Money Supply
1919	*76.5	†24.7	32.2%	†21.2	3.6
1920	*85.0	†30.7	36.1	†23.7	3.6
1929	103.8	41.9	40.4	26.4	3.9
1930	90.9	38.0	41.8	24.6	3.7
1931	75.9	31.4	41.4	21.9	3.5
1932	58.3	26.1	44.7	20.4	2.9
1933	55.8	22.1	39.6	19.8	2.8
1934	64.9	20.4	31.4	23.1	2.8
1935-39 avg.	84.0	21.5	25.6	31.1	2.7
1944	210.6	26.0	12.3	90.4	2.3
1945	213.1	30.4	14.2	102.3	2.1
1946	203.7	35.6	17.5	110.0	1.9
1947	229.6	43.1	18.7	113.7	2.0

*Department of Commerce old series. †As of June 30.

A grossly enlarged quantity of money is being written into our economy in two ways. First, at least in the early part of the postwar period, it is stimulating the effective demand for goods, as measured both in physical quantity and in financial value. Second, it is lifting the entire structure of prices. A permanently higher general level of prices is being built into the economy. The early period of price distortions in the general upheaval is alarming some, who looking back at 1920-21 and 1929-32, feel that the corrections must be downward. If our interpretations are correct, the corrections of disparities this time will be upward. It is much more likely, for example, that the school teacher's salary will rise toward the housepainter's wages than that the latter will fall toward the former. In the upheaval, wages have preceded salaries for two reasons. During the war, wage rates increased far more than did salary rates, and the monopolistic organization of unions, which is protected by law, gives them far greater power to extract their demands from society. The progress of salaries will therefore be slower.

Growing Up to Debt

Throughout history, nations have incurred sudden internal war debts which staggered some of their people at the time. Instead of collapsing under such "debts," nations' economies have "grown up" to them. Many in this country were alarmed in 1940 at the national debt of $48 billion. Today the debt stands at over $250 billion, and the national income is over two-and-a-half times what it was in 1940. The process of "growing up" to the debt seems far from completed. It will take generations, and in the process the national income will rise.

What appears to be an orgy of production, spending and consumption, in dollar comparisons with the past, is very largely, if not only, the inevitable process of rewriting our price system. We have not yet gone on a spree as we last did 20 years ago. Should this generation some time live in a carefree environment like that of the late 20s, there will be the monetary and economic foundations for a boom that would dwarf that previous one.

One of the major depressants has been the fear of war with the Soviet Union. A thorough speculative study on the probability of such a war would fill more space than we have already used here, and it would probably be useless if it were made by anyone outside the Politburo. But it seems elementary that those men would not provoke a war with us if they had only a few atomic bombs. Even if they had the means to produce them as rapidly as we could, they might not be used for the same reason that poison gas was not used in World War II. But if an extended war with atomic bombs and bacteriological attack were fought, there would be few persons left to mourn the destruction. The lingering survivors of radioactive clouds surrounding the earth would be derelicts who would have as little interest in money or the stock market as do our little canine friends.

The skepticism and pessimism have thrown common stock prices backward to the point where they are far behind the rest of the economy in the convulsions upward toward permanently larger dollar measurements. Some of the highest-grade common stocks are offering not only a yield of 6—7%, but also, the opportunity to acquire property of going concerns at prices far below what replacements costs are and probably will be for a great many years.

If and when the pessimism is exhausted, as it may now be, or may shortly be, the stock market one of these weeks or months will recognize the great disparity between stock prices and other prices. The compensative rise would then at some point be rapid.

In a two-year old postwar boom, there have not yet appeared general excesses of optimism which require liquidation. The economy is providing not only for expanded current needs, but also for those long neglected in the past. It is in process of adjustment to a grossly expanded supply of money, which ought by all precedent to result in a permanently higher price level. Because they are not excessive in relation to that money supply, the dollar measurements of national income and of corporate profits are likely to continue at the present rate, or even rise, over the next several years. In the meantime, pessimism and caution have depressed stock prices to a level which technical analysis indicates is a bear market bottom. Under such a combination of circumstances, the prospects for a bull market of major proportions seem to be extraordinarily good.

3 Meaning of the War Debt, The Commercial & Financial Chronicle, Dec. 25, 1947.

Halsey, Stuart Offers Ill. Central Equipments

A group headed by Halsey, Stuart & Co. Inc. was awarded April 26 $14,000,000 Illinois Central RR. Equipment Trust, series Z, 2½% equipment trust certificates, maturing $700,000 semi-annually Oct. 1, 1948 to April 1, 1958, inclusive. The certificates, issued under the Philadelphia plan, were immediately re-offered by the group, subject to Interstate Commerce Commission authorization, at prices to yield from 1.35% to 2.75%, according to maturity.

The certificates will be issued to finance not exceeding 75% of the depreciated value, estimated to be not less than $18,884 469 at April 1, 1948, of units of equipment now owned by the company free from lien. According to the company none of the equipment has ever been subjected to an equipment lien. The original cost of the equipment has been certified to the trustee to be not less than $20,399,847.

With Fabian & Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—Regina Wasick has become associated with Fabian & Co., 9500 Santa Monica Boulevard. She was formerly Assistant Manager of the Los Angeles office of Vance, Sanders & Co. and prior thereto was with Massachusetts Distributors, Inc.

E. H. Sondheimer With Kaufmann, Alsberg Co.

E. Henry Sondheimer has become associated with Richard K. Kaufman, Alsberg & Co., 120 Broadway, New York City, members of the New York Stock Exchange. He formerly conducted his own investment business under the name of E. Henry Sondheimer Co.

With Clement, Curtis & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — James P. Doherty, Jr. is now with Clement, Curtis & Co., Board of Trade Building, members of the New York and Chicago Stock Exchanges. He was previously with Paine, Webber, Jackson & Curtis.

The Current Money Market

(Continued from page 13)

consequence, consumers and business entered the postwar period with the largest volume of savings and of liquid assets on record.

During the war period, the inflationary pressures came primarily from government expenditures and from the financing of the Treasury's cash deficit that accompanied those expenditures. In the postwar period inflationary pressures have come primarily from changes in the rates of expenditure in the non-governmental fields. During the postwar period domestic consumers, business, and foreigners have increased their expenditures more rapidly than incomes and production have increased, while governmental expenditures have declined and, in 1947, were below receipts for the first time in 17 years.

Estimated Liquid Asset Holdings of Individuals and Businesses
(in billions of dollars)

	Dec. 1947 [1]	Dec. 1946	June 1945	Dec. 1939
Total	228.0‡	223.2	206.0	65.1
Individuals	*	156.9	147.2	45.8
Businesses	*	66.3	72.1	19.3
Currency	26.0‡	25.7	24.2	5.8
Demand deposits	67.0‡	64.6	56.0	20.9
Time deposits	55.0‡	53.0	43.5	26.3
U. S. Government securitie	80.0‡	79.9	82.3	12.1

1 Preliminary estimates based on incomplete data.
*Not available.
‡ Preliminary.
Source: Federal Reserve System.

Personal incomes have increased by 25-30%, while personal expenditures for goods, services and houses have increased by about 50%. Business profits increased by about 60%, while capital expenditures of business have increased by about 250%. Over the 2¾ years since the close of World War II, when the effective demand for goods and services from all sources has exceeded our ability to supply those goods and services, business and consumers have been able to increase their demands by about $90 billion, not quite ⅕ of their total purchases of $480 billion, through reduction in rate of savings, through liquidation of assets, and through borrowing or raising new capital. These funds were obtained approximately as follows:

Purpose—	Amount (in billions)
Reduction in rate of personal savings	$25
Consumer use of liquid assets	15
Consumer borrowing (net increase)	8
Increase in real estate loans	15
Business use of liquid assets	9
New capital from issuance of securities	7
Business borrowing from banks (net increase)	12

The rate of personal saving which amounted to about 20-25% of personal disposable incomes (i.e., income after income taxes) at the close of the war has since declined to about 6%. That means that instead of spending only 80% of personal income for goods and services we are now spending 94-95% of our income for goods and services. The reduced rate of savings of individuals has reflected smaller amounts of savings by some, use of savings by others, and borrowing by some.

Of the $90 billion of increased spending power referred to above, about $20 billion was borrowed from commercial banks, about $22 billion was borrowed from other institutions or individuals or raised in the securities markets and the remainder was obtained through use of liquid assets and reduced saving. To the extent that funds were obtained other than from banks, they did not increase the supply of money, but to the extent that they represented putting to active use funds that had been accumulated and left idle, they contributed to the upward pressure on prices. To the extent that consumers and business financed their buying through borrowing at the commercial banks that financing increased buying power and contributed to the upward pressure on prices. Just as the financing by the banks of a government deficit is inflationary during a period of full employment of our resources, so is the financing by banks of the cash deficit of individuals and business inflationary during a period of full employment of resources. (In speaking of "cash deficit" I am referring not to profits but to the excess of expenditures over income which can occur even during a period of high profits.) Even though the loans may be "sound" and "productive" a growth in loans is inflationary when resources are fully employed and demand outruns supply. Those loans increase the effective demand for goods and services and hence increase the upward pressure on prices even though the ultimate effect may be to increase supplies and reduce the pressure on prices.

Money Rates

I have emphasized these developments because they have such an important bearing on developments in the money market. During the war money rates were purposely kept low. By the spring of 1946 money rates had declined to very low levels. Since that time rates have tended upward in part because of the heavy demand for capital and credit described above (a demand in excess of the supply of funds) and in part because of the deliberate policy of the Treasury and the Federal Reserve System to tighten credit in the hope of imposing some restraint on inflationary developments. Rates probably would have risen more sharply but for three factors: (1) Imports of gold throughout the postwar period, (2) Ready availability of bank reserves resulting from the policy of the Federal Reserve System in supporting the market for U. S. Government securities, and (3) Liberal facilities and terms provided by legislation for the financing of home purchases, particularly by veterans.

Early in 1946 the Treasury began to use its large cash balances to retire some of the Federal debt. Significant amounts of securities held by the Federal Reserve System were retired, putting pressure on member bank reserves and necessitating sales by the commercial banks of some securities. Commercial bank holdings of U. S. Government securities were reduced by $15 billion, or 17%, in 1946. Interest rates, both long- and short-term, which had declined to very low levels in the first quarter of 1946, advanced somewhat in the succeeding four months. This advance undoubtedly reflected the very heavy demand for funds and the uncertainties introduced into the market by the pressure on reserves resulting from the Treasury's policy and strategy of debt retirement.

By the close of 1946, the Treasury had pretty well used up its excess cash balances and a resumption of a decline in long-term rates in 1947 was avoided only by substantial sales of securities from Treasury acccounts and by a new offering in the summer to savings institutions of a nonmarketable redeemable 2½% bond.

On July 10, 1947, the Federal Reserve System discontinued its fixed buying rate for Treasury bills and these securities have advanced from ⅜% to a current level of 1%. The Treasury also took steps to bring about a gradual rise in the rates on certificates, and yields on these securities have advanced from ⅞% to about 1⅛% at the present time. In January, 1948 the Federal Reserve banks raised their discount rates from 1% to 1¼% and in February reserve requirements for Central Reserve City banks were increased. Inasmuch as a substantial part of the Treasury's short-term debt was held by the Federal Reserve banks and the Federal Reserve board had previously (April 24, 1947) imposed a tax on Federal Reserve notes to drain off 90% of the System's net earnings into the Treasury, the rise in short-term rates had little net effect on the net cost to the Treasury of servicing the debt.

Yields on intermediate term Governments rose on the average by about ¼ of 1% and on long-term Governments by about ⅜% during the autumn of 1947. On December 24, the Federal Reserve System reduced its support prices on long-term Governments to about par and quotations reacted sharply and yields advanced. Since that time prices on intermediates have arisen somewhat.

Outlook for Money Market

What is the outlook with regard to the money market? The demand for capital and for credit is expected to continue to be heavy. The McGraw-Hill and Department of Commerce surveys indicate only moderate reductions in capital expenditures of business over the remainder of this year. These expenditures will entail increased borrowing. The maintenance of construction at present levels will require new loans of $12 to $15 billion and a growth in outstandings in 1948 of $6 to $8 billion. Not all of this will come from the banks but some of it will. There is every indication of further growth in consumer credit.

Sustained capital expenditures, rearmament, higher wages and expanding credit mean more dollar purchases by business, individuals and Government. But the physical volume of goods and and services, thanks in large part to the recent coal strike, will show very little increase. If these developments should occur, inflation will become more serious.

From the middle Thirties to the outbreak of European hostilities in 1939 the chief factor contributing to monetary ease was the influx of gold from abroad. The monetary gold stock increased by about $9 billion. Member bank reserves increased by $11 billion. Private debts showed almost no net change in total over the period while the Federal debt increased by about $12 billion of which about half was underwritten by the commercial banks. During the war, the chief factor contributing to monetary ease was the purchase by the Federal Reserve banks of $20 billion of U. S. Government securities. This, together with excess reserves of $5 or $6 billion at the outbreak of the European war enabled the commercial banks of the country to meet a currency demand of nearly $20 billion and to underwrite more than $60 billion of the Treasury's wartime deficit. Since the close of 1945, the Treasury and the Federal Reserve have, within limits imposed by their conviction that the Government market must be maintained in an orderly manner, tightened the money market by using Treasury excess cash holdings and cash surpluses to retire chiefly bank-held debt and to a considerable extent that held by the Federal Reserve banks. This action has been partly offset by gold imports and by Federal Reserve support of the market for U. S. Government securities.

Since the war, member bank reserves have been augmented by a $3 billion growth in monetary gold while reserve bank credit has been reduced by $2 billion. Federal Reserve holdings of bills and certificates have been reduced by about $8 billion since the end of 1945 chiefly as a result of Treasury debt retirement while holdings of bonds have increased by about $5 billion. The deflationary or rather anti-inflationary effects of Treasury retirement of bank debt have also been partly offset by expansion of bank loans which have tended to increase deposits and purchasing power.

Treasury revenues will be lowered by the reduction in taxes recently instituted by Congress, and expenditures will be increased by the rearmament program. Over the next eight months the Treasury will be running a deficit. Therefore we cannot look to the Treasury for further significant tightening action unless sales of nonmarketable issues like the E and G bonds are increased remarkably. The Federal Reserve System has about exhausted its powers except to increase discount rates further at a time when banks aren't borrowing anyhow. Gold will probably continue to come into the country in substantial amounts. On balance, therefore, underlying factors point to an easing of the money market over the near-term future at the very time when inflationary pressures may increase. Added to these prospects is the possibility through Government action of checking or even offsetting the recent tightening of mortgage money.

Under such conditions we have at least nine alternatives:

(1) We could do nothing and hope that somehow everything will work out all right. If it should, it will be the first time in history.

(2) We could impose voluntary E, F and G bonds sufficiently to retire bank held debt.

During 1948 commercial bank loans outstanding increased by $8 billion. Demand for loans in 1948 will undoubtedly exceed that figure. Without that credit, demand for goods and services could not expand so rapidly. Success of the ABA program could go a long way toward checking our inflation. If is is not successful we shall have to turn to other devices.

(3) We could increase taxes to offset increased defense expenditures and provide a surplus sufficient to continue to retire the debt rapidly enough to maintain pressure on the market.

(4) We could increase sales of E, F and G bonds sufficiently to retire bank held debt.

(5) The Federal Reserve System could abandon its support of the government market and sell securities.

The F. R. Support of Government Bonds

Federal Reserve support of governments is one of the most controversial issues in finance today. The issue is over the consequences of withdrawal of support. And no one knows what would happen. The evidence indicates that abandonment of support of the market and the sale of securities by the Federal Reserve System would undoubtedly drive prices below par and cause them to reach their "natural" levels, whatever that may mean. What would happen under those circumstances, I don't know. We must remember that the Federal debt was less than 20% of total debts in 1920 whereas today it constitutes 55% of the total. It is the most important single factor in our money market and what happens to governments, therefore, will have a profound effect on all of our financial institutions. We must also remember that we haven't had a so-called free market for governments for almost a generation of bank investment officers. What would our present bank investment officers do if governments went to a 10% discount?

A market has been built up around a complicated pattern of Federal debt hedged with many varying restrictions regarding purchases and sales. We have nonmarketable issues which are in effect demand obligations, we have marketable obligations which are eligible for bank investment and we have marketable obligations which are not eligible for bank investment. There is considerable disagreement as to the desirability of abandoning support of such a market. In general, I have observed that those who are closest to the market in its everyday operations are most reluctant to see supports go while those who are farthest removed from the market tend to be the least reluctant or to favor removal of supports. I have also observed that those who have the heaviest commitments in long-terms are generally reluctant to have support withdrawn while those who have small or no long-term commitments or need not worry about their demand obligations are less concerned about supports.

We must also remember that for many years the maintenance of prices above par was considered to be a measure of the financial strength and integrity of the Federal Government. Now we know that to be a lot of bunk, but does that part of the public which is not so well informed on financial matters understand the significance of price declines in governments to below par. What would individuals do if prices of marketable issues should go to a 10% discount? Personally, I believe that we would be much better off if we could get away from the shibboleth of parity in the government securities market. But I, for one, am not prepared to recommend on doctrinaire grounds alone action on such a complicated question of so controversial a nature, fraught with such possible consequences to our financial structure and, indeed, our whole economy.

(6) The Federal Reserve System could raise discount rates.

On April 13, 1948, Governor Eccles in a statement on behalf of the Board of Governors of the Federal Reserve System before the Joint Committee on the Economic Report said that if prospects of further increases in bank reserves were borne out by actual developments the Federal Reserve would have to take action to absorb any excess volume of reserves. One action that should be taken, he stated, was to permit rates on short-term Treasury securities and Federal Reserve discount rates to rise to the extent possible without raising rates on long-term bonds. He pointed out that this action "which could be adopted by the Federal Reserve and the Treasury without any new legislation, would be designed to induce banks to purchase short-term Government securities and to discourage extension of credit to private borrowers. Policies during the past year have moved in that direction about as fast as is feasible without unduly upsetting the market. There are limits, however, to such a course. Short-term rates probably cannot be raised much more without unsettling the 2½% rate for long-term Treasury bonds. Moreover, it is doubtful how much any rate that is feasible will deter banks from making loans to private bor-

rowers or purchasing higher rate securities."

I would also like to point out that at the present time member banks are borrowing $100 million out of nearly $16,000 million of reserves. Advances in discount rates would, however, have an unsettling psychological effect on bankers and hence a deterrent effect on bank lending and a tightening effect on money.

(7) Reserve requirements of the banks could be increased.

It is because of its misgivings over the consequences of abandonment of support of long-term bonds that the Federal Reserve Board has recommended legislation to provide authority to increase reserve requirements. If inflationary developments continue I predict that you will hear more and more about this subject. I would like to point out the dilemma which we now face and which we will continue to face even if reserve requirements are increased. So long as the Federal Reserve System is committed to the maintenance of a 2½% long-term rate banks will continue to have the assurance of an availability of bank reserves. Advances in rates on alternate types of investment would provide an incentive for banks and other investors to sell their long-term 2½s. So long as the Treasury can run a large enough cash surplus to retire the debt in amounts sufficient to maintain the pressure on bank reserves the problem does not become so serious. Treasury deficits, however, will require us to face the alternatives of inflation or stability in the Government securities market. We have two devices remaining, however, by which we may be able to avoid such a decision.

(8) We could institute selective credit controls.

This would mean reimposition of consumer credit controls, establishment of comparable controls on real estate mortgage loans, devising of government controls to see to it that business loans were for constructive purposes and did not feed inflation, that agricultural credit was for productive and not speculative purposes, and that capital issues met the test of public welfare in not putting too great a strain on the ability of industry to provide capital goods.

(9) We could reimpose price controls. In my opinion if price controls were to be reimposed, they would have to be followed by wage and profit controls, then by allocations or even rationing. I also believe that these controls, once reimposed, would not soon be removed.

We still live in a democracy. And in a democracy the decisions are, in the final analysis, made by the people. Public opinion will dictate our course of action. The character of our decision will determine to a considerable extent the kind of society in which we shall live. The people's leadership in making these decisions must come from the bankers of the nation. Perhaps to a greater extent than ever before, bankers hold the destiny of our people in their hands.

Coburn & Middlebrook Adds

HARTFORD, CONN.—William P. Spear of Portland and Stuart G. Segar of Manchester have become associated with Coburn & Middlebrook, 37 Lewis Street. Both were formerly with Kennedy-Peterson, Inc. Mr. Spear was formerly resident manager of the firm's New Britain office.

Prior with Lord, Abbett Co.

HAGERSTOWN, MD.—Howard A. Prior, formerly head of Howard A. Prior Co., has become associated with the staff of Lord, Abbett & Co., 63 Wall Street, New York City.

Trial and Error

(Continued from page 3)

stricken from the record. This created a hostile atmosphere and should never have been permitted.

The functions of a witness and that of an advocate are, of course, separate and apart and, to be mild, it is considered in very bad taste for an advocate to testify in a trial wherein he acts in that capacity.

On the original hearing, the respondent was fined $250.00 and costs.

Feeling aggrieved, the respondent appealed and on the appeal was penalized because of his quest for redress, the final penalty being a suspension for 30 days. This result, even if for the sake of argument, we assume the respondent to have been guilty, is, to our mind, utterly reprehensible.

It seems to us that there is no excuse for increasing the penalty upon an appeal in any case, because the effect of such an action is to discourage the search for ultimate justice.

The prospect of administrative trials as now conducted continues to be most disturbing, the need for reform is most urgent.

These regulatory groups will do well to establish the safeguards with which courts surround hearings and trials, so that the parties involved will get the rudimentary benefits of a fair and impartial trial.

Significance of Recent Economic Developments

(Continued from page 7)

a lot of business men are "kidding" themselves on this score.

To show you the importance of inclination, may I point out that despite the enormous volume of money and demand deposits, bank loans in 1947 increased $7,452,000,000 to a total of $43,100,000,000 at the end of the year. Although most people say this was caused by high prices, actually, inclination caused the creation of this new purchasing power.

More specifically, many expenditures in 1947 were at fantastic levels. Business investment in plant and equipment (including inventories) which was at the average annual rate of $6 billion in the period 1931-9, and was at the average annual rate of $10 billion during the war, jumped to nearly $30 billion in 1947. Chain stores alone, last year, spent $386,500,000 for store construction and remodeling which was nearly three times the previous record in 1941.

Exports set a peacetime record of $19,600,000,000 in 1947. Our exports exceeded imports by $11,300,000,000 of which $5,600,000,000 was financed through government grants and loans, and $1,000,000,000 was accounted for by relief shipments.

High Level of Income and Expenditures

Last year the personal income of the American people, **after taxes**, reached $175,000,000,000. On the average, we spent 94 cents out of each of these dollars which gave us the amazing total of $164,100,000,000 to spend. But not content with this enormous rate of cash expenditures, John Q. Public also called on his credit by increasing his consumer credit borrowing by $3,200,000,000 to a grand total consumer debt of $13,368,000,000 at the end of 1947. Business men will do well to ponder the possible effects in a recession of this first claim on, let us say, the "surplus" income of the man in the street.

The enormous exports to a hungry world and the extraordinarily high level of consumption in this country have been the real driving forces in our inflation. To give you an idea of the increase in consumption, let me cite a few statistics on the consumption of one of our critical products, oil. This may bring up bitter, or shall I say, cold memories; but here goes.

Compared to 1941 (biggest prewar year):

1,300,000 new oil burners are using 2,500,000,000 **more** gallons than in 1941.

30,000,000 motorists are using 2,500,000,000 **more** gallons than in 1941.

7,000,000 trucks and buses are using 3,000,000,000 **more** gallons than in 1941.

Armed forces are using 3,500,000,000 **more** gallons than in 1941.

Railroads, airlines and ships are using 2,500,000,000 **more** gallons than in 1941.

Farmers are using 1,500,000,000 **more** gallons than in 1941.

Industry is using (for heat, power, lubrication) 2,000,000,000 **more** gallons than in 1941.

New products, made from petroleum, use 1,000,000,000 **more** gallons than in 1941.

Users of liquified petroleum gas use 1,500,000,000 **more** gallons than in 1941.

The so-called oil shortage is really an excess demand of 20,000,000,000 gallons more than was used in the biggest pre-war year; yes, even 7,000,000,000 gallons more than was used in the biggest **war** year!

Clearly, consumption is the "villian in the piece."

New Inflationary Pressures

I have cited enough figures to show you the terrific momentum of present inflationary pressures. Let us list the more important inflationary pressures which are now materializing.

(1) Another round of wage increases is under way. On the basis of past experience, it is idle fantasy to expect labor leaders at this date to forego another step on the wage-price inflation spiral. They either can't understand, don't want to understand, or because of union politics, don't dare to understand the economic repercussions set off by each attempt to catch prices with wages.

(2) The tax reduction of $4,800,000,000 which is largely concentrated in the lower brackets is inflationary.

(3) Rearmament expenditures, as now planned, of $3 billion or more can be highly inflationary because they will accentuate certain of our more serious shortages, such as steel.

(4) The Marshall Plan expenditures for Europe, and the assistance we shall give Greece, Turkey, and China are also inflationary in character.

(5) Veteran's bonuses in several states, with a high of $300,000,000 in New York State, are also definitely, inflationary. It is indeed unfortunate that political expediency dictated these bonus expenditures now. (How much better it would have been for the veterans and the taxpayers if payment had been postponed until business was at low levels. We render lip-service to the compensated budget idea but rarely miss an opportunity to do the opposite!)

(6) The fact that this is presidential election year is the greatest inflationary danger of all. Neither party wants to take the responsibility for anything, no matter how sound, which might cause bad business. Everything will be on the up-side until after the election if the politicians can keep the boom rolling. While we still have quite a bit more inflation to absorb into our economic system, there are powerful offsetting forces in the direction of deflation.

First, and foremost, I would put the credit restriction policy started last Spring by the monetary authorities. Interest rates have been permitted to rise. Loan expansion has been the subject of continuous criticism by the banking supervisory authorities and now seems to have come to an end. The Treasury has followed a selective redemption policy, which has materially reduced bank deposits and bank reserves at the Federal Reserve banks. The Federal Reserve Banks have reduced their holdings of government securities through redemption and sales and thereby further reduced bank reserves. Although many economists claimed that the Federal Reserve System could not increase interest rates in the fight on inflation without withdrawing its support from the government bond market, they have tightened credit and no government security has dropped below par! And finally, at the end of February, reserve requirements of the central reserve city banks were increased 10%.

The monetary authorities have not only reduced the credit base and increased interest rates and thus put direct deflationary pressure on banks and business, they have injected uncertainties into the economic situation which have caused many a business man to reconsider grandiose plans for expansion.

Credit tightening by the monetary authorities is, as the advertisements proclaim, a certain physical shortcoming, insidious, but it is nonetheless powerful and inescapable. It takes a while for the restrictions to register their full effect, but they put direct pressure on the most critical point in our economic system, namely, bank reserves.

Inventories increased $7 billion last year to a grand total of $41.2 billion. The physical accumulation of inventory ended in most lines last year as a large part of the year's $7 billion increase represented price increases. Most businessmen now seem to have awakened to the danger of the largest inventory accumulation of all time at the highest prices in modern times. So, instead of the increased business activity, which we have had since the end of the war, to fill the pipe-lines of distribution, it would seem reasonable to expect the opposite. In fact, I will go further and say that inventories have reached dangerous heights in many lines. To give an extreme illustration, consider the excess carryover of 5 million cases of canned peas. Or consider the panic which hit the grain markets when the speculators discovered that there were still 795 million bushels of wheat on the farms on Jan. 1, 1948 despite very heavy exports. This inventory in the face of heavy world production caused the markets to rock. For example, Australia has a bumper crop; Argentine is releasing more grain to the world markets; and, European crop conditions are especially favorable.

Pressure of Production on Prices

Of course, the real antidote to inflation or high prices is production. The pressure of production on prices is growing so rapidly that it is becoming once more a rare privilege to be a consumer and a first class headache to be a producer. In this connection, consider nylon stockings, and who doesn't like to consider them! Production in 1946 was 356 million pairs; in 1947, production was 430 million pairs; in 1948, it is estimated production will be 620 million pairs. That's what I call production!

Or consider, on March 4, one of our largest tire manufacturers announcing a 30% cut in tire production, explained as follows: "Sales fell off sharply during January and February after maintaining record peacetime highs for two years. This does not mean that the bottom has dropped out of the tire market, but rather that the big postwar demand finally has been filled." As this just about summarizes what has either happened or is ahead in most lines, I shall not add to it.

Present prices are extremely vulnerable not only because they are at record levels so high that they reduce consumption, but also because (1) production is really beginning to roll; (2) inventories are at high levels in most lines; (3) and, as the postwar break in prices is more than a year overdue on the basis of World War I, the money is beginning to run out for many consumers. Any softening of prices, such as we had in the grain markets, causes people to postpone buying which is, of course, the most powerful deflationary force of all. The recent lower food prices have demonstrated the power of the consumer and taught him that price is not a one-way road. Businessmen will do well to heed this lesson.

Conclusions

In conclusion, let me say that we are spectators and participants in a mighty tug-of-war between powerful forces of inflation on the one hand and equally powerful forces of deflation on the other hand. Sooner or later, the inflation merry-go-round has to end. While there will be a great deal of backing and filling in the next few months, and the battle is by no means won, it is my considered opinion that we have passed the top. No one can be certain of this because the government has the power to put prices up—and this is an election year! But barring unforeseen developments, particularly those of a political character, it is my guess that henceforward all roads lead down. This does not mean that we are headed for a crash. It means rather that in the near future people, in general, probably will begin to realize that we have been experiencing a business readjustment since the beginning of the year. If we keep our head, this readjustment should be neither too serious nor too long. So don't get too worried. The honeymoon is over, but there is work to be done—yes, a world to be rebuilt.

Freehling, Meyerhoff To Admit

CHICAGO, ILL. — Edward G. Platt, member of the New York Stock Exchange, who has been active as a floor broker, in New York City, will become a partner in Freehling, Meyerhoff & Co., 120 South La Salle Street, members of the New York and Chicago Stock Exchanges. Ferdinand A. Straus will retire from partnership in the firm on April 30.

Kutch & Co. To Be Formed

John J. Kutch and Walter A. Schiffer, both members of the New York Stock Exchange, as of May 1 will form Kutch & Co. with offices at 40 Wall Street, New York City. Both have been active as individual floor brokers.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Public buying and holding now in majority, indicating potential market weakness.

* * *

Anybody who buys stocks today because a war seems around the corner is too gullible to find any interest in this column. I have no idea if a war will break out in the immediate future or not. That possibility is always present. But the sword rattling and the name calling you hear and read today has as much to do with the solid buying and selling of stocks as these words have in framing national policy.

* * *

The time honored method of interests seeking large appropriations is to sound the alarm. Submarines in the Hudson! We may all be murdered in our beds!! Commie planes over Alaska! They'll be over Detroit next!! And so it goes.

* * *

About a month and a half ago, mid-March, I advised buying stocks. This advice was based entirely on the performance of the market and individual issues. Since they were bought and have advanced satisfactorily, everybody should be happy.

* * *

In the past few weeks, the public fed on war scare news, has reentered the market. The early buyers, on the other hand, have slowly sold their stocks which the public has bought. The picture you see is one of irregularity and sporadic dullness which makes for confusion, which market action does little to dispel.

* * *

A word of warning: A public eager and anxious to get aboard can set a market off on a crazy spin that is almost impossible to guage. At the same time it must be realized that just as alarms are rung for a purpose, so is buying done for profit. Methods in both cases are the same; feed news for a purpose. Once that purpose is accomplished, let the whole thing drop.

* * *

Obviously it is impossible to guard against all contingencies. A sudden urge by the public to buy can bring unusual strength. Gradual removal of buying orders by cool, dispassionate traders leaving the public to hold the bag, can also bring about a sudden collapse. It depends which side is stronger at the time. By and large the latter forces are more important. They are organized better, have better knowledge of what is going on, and know what they want. Their market activity, or lack of it, has a great deal more influence on the market in the long run.

* * *

In recommending stops this column has tried to steer a middle course. As pointed out here frequently, the results cannot be assured. But until something better presents itself, it will have to do.

* * *

Consolidated Vultee broke stop at 14 and half was sold. Last week's advice applies. Rest of the stocks held their gains with some reactions from their highs. So long as they stay above their critical levels, hold on. For reference to all stocks in the list and their stops, see last week's article.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

W. P. Moncreiff Now With Glore, Forgan & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — W. Philip Moncreiff has become associated with Glore, Forgan & Co., 135 South La Salle Street, members of the New York and Chicago Stock Exchanges. He was formerly with Norman Mesirow. In the past he was a partner in Moncreiff & Tittle.

John M. Saunders Joins Staff of Blair & Co., Inc.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — John M. Saunders has joined the staff of Blair & Co., Inc., 135 South La Salle Street. He was formerly with Benjamin Lewis & Co. Prior to serving in the U. S. Army he was a partner in Saunders & Co.

R. F. McNab Is Now With Merrill Lynch Staff

(Special to THE FINANCIAL CHRONICLE)

SAVANNAH, GA. — Robert F. McNab has become associated with Merrill Lynch, Pierce, Fenner & Beane, 32 Drayton Street. He was formerly Manager of the Charleston, S. C. office of Courts & Co. and prior thereto was with Francis I. du Pont & Co.

Robt. Livingston in Hospital

Robert T. Livingston of L. J. Schultz & Co. is in the Richmond Memorial Hospital, Staten Island, as the result of an automobile accident.

The Congressional Program

(Continued from page 17)

efits of the law go to those of lower incomes.

(3) Tax relief is the best tonic I know to keep our free enterprise American system strong.

Certainly, in this group it is unnecessary to elaborate upon that statement.

You ask me—will we be able to hold to the tax reduction formula. My answer is, it will depend upon the cost of government. What is that cost to be? Here are the must items in expenditures:

$5½ billion for interest on the debt,

$8½ billion for all G. I. benefits, and

$9 billion 333 million for foreign aid for 15 months.

The next must item is for national defense. There is a fog and smoke screen around the military figure. Estimates range from $14 billion up. This totals $37½ billion of must items. To that figure we are requested to add the appropriations for 1,170 bureaus, the budget estimate for which totals about $12 billion.

Must Cut Expenses

We have got to cut wherever we can cut, and spend only where we are absolutely compelled to spend. Only with that fiscal policy can we hope for a perpetuation of our American system. This is a question of absolute national necessity. It is not a question of political expediency. It is the stark question of America's survival.

A balanced budget will depend then upon the amount appropriated for national security, and the essential amount for the operation of the regular departments of government.

In building a national security program many factors must be given our utmost consideration, particularly the balancing of the methods of defense. A few short months ago we were told Universal Military Training was the answer. Now it develops our whole armed services program must be overhauled, in the light of present world conditions.

Importance of Air Power

On one point the experts are apparently agreed, that air power is an important factor in total national security. Congress is fully conscious of the need of increasing our air power. Whether there should be 55, 66, or 70 air groups is a matter to be determined in connection with other requirements. I, for one, feel that air power today has become our first line of defense.

Then there is the question of manpower. It is inescapable. On that question Congress will have to provide the answer. I think it will be done by offering incentives for a volunteer army and augmented by a limited selective service, to be used at the option of the President, to guarantee the required number in the event the volunteer system is inadequate.

The costs we bear and the threats we face today are the consequences of years and years of appeasing Russia. Without the approval of the American people our spokesmen in foreign affairs sold down the river to Soviet Russia small countries who cherished their own independence and freedom; and handed to the men in the Kremlin vast rights in the Far East to which they were not entitled. This appeasing simply made the Communists bolder.

There is ample evidence of fifth columnist operations in the United States. They parade under many disguises. They reach into every walk of life. They infest every means of communication. They are rats gnawing at our republican form of government.

We can be thankful that the American people have found them out. And there are indications, especially the results of the Italian elections, that the people in Europe likewise are aware that the Communists are a shoddy lot—that they preach democracy and practice tyranny.

In order to work and contribute their utmost toward a lasting peace, the American people must be given all the facts. Vacillations and failures in our foreign policy are luxuries the American people no longer can afford. They have increased the billions of dollars we are now being called upon to appropriate for national defense and the billions of dollars that we are pouring across the oceans for world relief and reconstruction.

The tremendous demand upon our resources and commodities in short supply for shipment abroad —along with the dollars, materials, and man power required for wealth-consuming military defenses—are major causes of high prices that our people are being forced to pay.

It all adds up to this, that what America vitally needs is:

(1) Sound leadership in Washington,

(2) Sound policies in keeping with the Constitution of the United States and the American way of life,

(3) And a fortnight administration of these policies.

At the same time, we must handle these extra burdens of defense and foreign aid without converting our country into a police state. By that I mean, without restoration of the controls—directives — and innumerable other means of regimentation that we patriotically endured during the war. It will avail us nothing to secure freedom for the rest of the world and lose our freedom here at home.

Business Outlook

(Continued from first page)

Council to indulge in prophecy or specific forecasting. But it seems both desirable and I hope mutually useful for members of the Council to embrace opportunities such as the present of meeting with active leaders of business to exchange views as to the economic impact of new developments and how they may be used to promote more stable peacetime prosperity or at least prevent, so far as possible, their interfering with the attainment of that goal.

The European Recovery Plan does not entail a level of exports higher than, or even as high as, that of last year, and actual expenditures under the defense program will be relatively small in the near term. Together, however, they will divert a significant fraction of national product from the domestic civilian market. As I see it, the effects are by no means all on one side of the ledger. To a considerable extent, the two undertakings exert an influence in the same direction—that is, added spending and added priority demands for materials and manpower. Nevertheless, I believe there are some notable differences in the ultimate consequences to our economy that may be expected from economic aid to Europe on the one hand and from enlarged military outlays on the other.

Effect of ERP and Defense Program

Deferring that distinction for a moment, I would like to present my first suggestion as to the probably gross effect of the two programs taken together and to put the matter in the form of a paradox. It appears to me that the effect on the business outlook might reasonably be designated as "favorable," the effect on the economic outlook as "unfavorable."

As to the first heading, I shall do no more than state what seems to me to be practically the concensus of most business and much economist thinking, namely that, in the absence of these foreign aid and defense stimuli, domestic business would have shown a sagging tendency during 1948. It might have gone to the dimensions of a mild recession but presumably would not have got really out of hand in view of several strong underlying or recuperative factors. The President's Mid-year Report and second annual Economic Report and the Council's report on the impact of the foreign aid program appraised the expected amount of export subsidy as a temporary external "prop" to our economy. It would tend to defer the process of internal adjustment to the competitive buyers' market which was naturally to be expected as the catching-up stage was completed in more and more industries. It was indicated that the impact would converge on metals, particularly steel; on fuel and power; and on farm products, particularly wheat and livestock products. It might be so severe at key points as to distort operations and have a substantial inflationary effect, particularly if weather were bad, labor stoppages serious, or scrap metal and ore shortages unrelieved.

With the present crop outlook, with peace—or at least a truce—in the coal fields, with ore movement on the Great Lakes opened a week early, and with price reductions announced at several strategic points, prospects of an arrest of inflation are a little brighter. At the same time, the actual launching of ECA operations under highly competent business management and the unfolding of commitments involving government spending for military preparedness during several years ahead, fears of recession have been allayed and a general atmosphere of confidence engendered in business circles. This generalization is not without qualification. Thoughtful persons still fear that, as expenditures increase in 1949, 1950 and 1951, inflationary pressures may revive in menacing form, and we might be thrust back into a deficit position and/or disturbing increases of taxation.

I shall not attempt the dubious and quite possibly mischievous task of guessing how far these dangers might develop next year or thereafter. If my appraisal of the present situation is correct, that businessmen in general regard the near-term business outlook as favorable, and if we could assume that the diplomatic and military situation did not get worse and perhaps might grow somewhat better, it would seem reasonable to expect that business prosperity might be well sustained for several years ahead.

Unfavorable Economic Outlook

This would validate the first half of my paradox, namely that the concensus of business thinking seems to be that the business outlook is favorable. I may turn, therefore, to the second point of the paradox and suggest that the economic outlook is, under these same assumptions, unfavorable.

When I use the terms "favorable" and "unfavorable," it is but natural and proper that I should take as my criterion the purposes declared in Section 2 of the Employment Act. This sets up the general objective of sustained rather than intermittent use of the nation's resources, material and human. As specific goals, it as-

pires to maximum employment, production, and purchasing power, let us ask then whether the condition of national economic life induced by our official commitments to foreign aid and military preparedness can be expected to move us toward attainment of those three objectives. Or would it tend to hold us back?

As to its promotion of maximum employment, the answer seems pretty clearly "yes." Our normally growing labor force will presumably find jobs available to them in the open labor market or thrust upon them through the compulsion of selective service. And steadiness of employment will probably, except for some possible slack while actual expenditures are getting under way, be well sustained throughout the life of these programs. They might even draw some additional women, oldsters, and youngsters in to enlarge the labor force and produce a situation which, according to standards of social well-being and economic efficiency, should properly be recognized as *over*-employment rather than desirably "full" employment.

When we turn to the second or production objective stated in the Employment Act, the short answer would seem also to be "yes." Steady employment of this large, or even enlarged, labor force would certainly assure a tremendous flow of goods and services. And we may reasonably call it "maximum" if we assume that workers will be so well supplied with plant, materials, and supervision that their effort will be applied under favorable conditions for efficiency. We would need to assume also that their own attitude and appraisal of inducements were such as to maintain high morale.

I infer that these conditions to efficiency would be reasonably well met. Technical, managerial, and general training has been kept up to a high level and indeed notably expanded under the training features of the GI Bill of Rights. Enormous amounts of new capital have been poured into industrial, commercial, and agricultural plant, and it is to be assumed that the aims of both programs will be conducted with enough practical wisdom so that any serious plant and equipment shortages will be avoided.

Apparently, it will be in the area of supply of materials that the most serious limitation upon maximizing production under this stimulated program is to be anticipated. We have been rather shocked by the experience of the last two years to realize how great was the drain of the war period on mineral resources. We have been amazed to see how great a demand a fully employed and well paid and vigorously growing population makes upon peacetime resources. We have become concerned over the narrowing margin of reserves and needs of stockpiling. All this is reflected in provisions under both programs to furnish inducements at home and abroad to increase production of materials found to be in inadequate supply. We may hope that these stimuli will outrun any added drains entailed by the programs.

Technically competent opinion differs somewhat as to how obsolete our plant is or how much it has suffered from deferred maintenance and how adequate is financial provision for maintaining the productive capacity needed for the volume and kind of production demanded by the aid and defense programs. Here there is every reason to expect that, if private financing does not appear to be able to provide needed investment, governmental funds will be put in to assure adequate plant —as was done under DPC and other World War II agencies. Even though this aided maximum production, I should myself count it an unfavorable development in so far as it put more industrial plants in government hands.

Coming now to the effect of ERP and the defense program on the third objective, "maximum purchasing power," I fear that the verdict must first be stated as "unfavorable." Later I shall suggest possible qualifications. That we may be sure we are thinking about the same things, I shall begin by defining "maximum purchasing power" as I believe it to be understood in the Employment Act.

The reasonable meaning of this term is clear from the context of the act and Congressional debate. By providing work opportunities under efficient conditions for all those able, willing, and seeking to work, the flow of goods and services would be so enlarged as to maximize the ability of the rank and file of our population to command such things as they desire in the market. In a word, this means as high a level of real income as industrious and well-directed use of our economic resources will permit.

Compatibility Between ERP And Maximum Consumer Purchasing Power

In the light of this definition or, in fact, in accord with the long-accepted objectives of economic science, I will submit in categorial form several suggested answers as to the compatibility between foreign aid and defense programs and maximum consumer purchasing power.

(1) The economic rationale of European aid is that it is an investment in future purchasing power for our people. It will contract somewhat the flow of goods which might go to supply the American market for a time, in the expectation that this outlay will reduce by a larger amount the need for relief operations or military defense now or later and enlarge our future international trading opportunities. Seed cast on the waters now will multiply into harvests of much greater size in later years. Thus, in broad analysis and long perspective, ERP efficiently managed will contribute to the maximizing of American consumer purchasing power.

(2) Military outlays as such are essentially unproductive and potentially destructive. Nevertheless, some billions withdrawn from civilian consumption during the next few years to produce a convincing show of military strength may prevent actual destruction of our wealth at a later time. In that case, it too can be regarded as an investment or at least as a necessary protective outlay which will contribute to the maximizing of consumer real income in the long run.

(3) We can't eat our cake and have it too. Five, ten, or 15 billion dollars' worth of goods and services a year cannot be withdrawn from our economy during the next few years and still leave the real income of consumers as high as it would otherwise be during this period—except on one assumption. If a substantially enlarged military establishment is a sort of new "white man's burden" that we shall have to carry indefinitely, either alone or as part of UN, then we may have to revise our estimates of the level of real income that our people may expect as "maximum purchasing power."

The qualification I just alluded to is that the circumstances which cause this withdrawal from our consumer market might also operate to enlarge production by a like amount or maintain it when it would otherwise have declined. It is not possible to demonstrate whether or not this assumption is valid. But it is well worth pondering. When I suggested the proposition that the economic outlook was rendered less favorable as a result of the diplomatic support and military defense programs we have had to undertake in an unpeaceful world, I implied that we would have attained equally high employment and production in the absence of this stimulus. I implied also that this high production would have been in the form of goods and services that consumers, given free choice, would desire more than what comes out of the diverted line of effort.

But now in perfect candor. I must admit that I am not altogether sure that, in the absence of foreign aid and defense programs, we really would have achieved this high level of consumer purchasing power or real income. To have done so would have required that we go from the production and market conditions of last summer to a *bona fide* peacetime economy in which we effected the income and price adjustments necessary to a peacetime bargaining—and partly administered—market without suffering aggregate production cutbacks or settling down to a level of total activity less than that which we will in fact maintain under the spur of European aid and the defense program. Would our economic sophistication, our mutual forbearance, and our behavior in a competitive market in fact have produced a larger end product than will be engendered as a result of superimposing an admixture of patriotism, fear, and chauvinism upon that pattern of economic life? I leave that question with you.

The foreign aid and defense programs have postponed the day when we shall have to face that issue. And since they inevitably enlarge the flow of monetary purchasing power to an as yet indeterminate extent and reduce the supply of civilian goods in some unknown degree, they cannot help but make more difficult the ultimate attainment of the hoped-for equilibrium of a free and well-stocked market.

Outlook for Aircraft Manufacturing

(Continued from page 14)

world's greatest airlines is now taking place and there is a significant feature in the announcement that I would like to point out. The NATS, which have operated all through World War II, will continue to operate under the new merger with ATC, under the title of Military Air Transport Service. The NATS have been operating five of the great MARS Flying Boats since the middle of the war, which up to the present time, together with their fleet of DC-4's, have carried their passengers and cargo over 75% of water area and have flown 500,000,000 passenger-miles without a single fatal accident.

The big MARS flying boats leave Oakland, California, and Honolulu every day six days a week and carry thousands of tons of cargo as well as passengers and use ground approach control on every landing, whether it is bad weather or not—so that if they do come in with low visibility there is no concern whatever to the crew as they have developed instrument landing to a 100% safe landing status for a considerable period of time.

The new equipment that is to be put on the lines of the new Military Air Transport Service is not ready for announcement.

Problem of Getting Capital

If I may say so, probably the greatest problem facing the small band of aircraft people is the educational problem among the peoples of our country to win the confidence of sufficient numbers of people that will provide the capital required to do a sound job. It seems that we are unable to progress faster than the public absorbs their understanding of the facts. All through history new developments have been resisted and, in order to prove my point, may I cite some examples from recent past history that will show the constant resistance encountered when exponents of the arts of progress try to advance faster than the acceptance by the masses. Thus, an extract from the "History of Transportation," 1828 Lancaster School Board, states: "You are welcome to use the school house to debate all proper questions in, but such things as railroads and telegraphs are impossibilities and rank infidelity. There is nothing in the Word of God about them. If God has designed that His intelligent creatures should travel at the frightful speed of 15 miles per hour by steam, He would clearly have foretold it through his own prophecies. It is a desire of Satan to lead immortal souls down to Hell."

Speeds attained by stage coaches in 1812 were esteemed little short of marvelous; for example, Isaiah Thomas, Jr., a well-known Boston printer, had occasion to go from Washington to Baltimore. The trip required 1½ days for its completion in a coach drawn by three horses. The much swifter mail coaches, over the same route, left Washington at 4 o'clock in the morning and reached Baltimore, under favorable conditions, at 11 o'clock at night on the same day. This required a change of horses and drivers every 12 to 15 miles.

An extract from a letter written in 1822 in description of a trip from New York to Boston, states: "Leaving New York for Boston we arrived Providence in 23 hours and immediately embarked by stage coach for the remaining 40 miles." "We were rattled from Providence to Boston in 4 hours and 50 minutes. If anyone wants to go faster, he may send to Kentucky and charter a streak of lightning."

Oliver Evans, in his early endeavors to get Congress interested in a systematic course of railroad investigation and development, prophesied as follows: "I do verily believe that the time will come when carriages propelled by steam will be in general use, as well as for the transportation of passengers and goods, traveling at the rate of 15 miles an hour or 300 miles per day."

The "New York Tribune" on Jan. 24, 1904, published an interesting reminder of how at a comparatively recent date those who believed in flying were classed as visionaries. "Representative Robinson of Indiana, in the House today attacked bitterly the War Department's policy in spending money to aid in the development of the Langley airship. He said the department had put $100,000 into a project 'which every sensible man knows has no utility'." He continued, "Here is $100,000 of the people's money wasted on this scientific aerial navigation experiment because some man, perchance a professor, wandering in his dreams was able to impress the officers that his aerial flight scheme had some utility."

Here is an extract from the Introduction to the "History of the Navy of the United States of America," by James Fennimore Cooper:

"There is an opinion becoming prevalent that the use of steam will supersede the old mode of conducting naval warfare. Like most novel and bold propositions this new doctrine has obtained advocates, who have yielded their convictions to the influence of their imaginations, rather than the influence of reflection.

"That the use of steam will materially modify naval warfare is probably true, but it cannot change its general character. No vessel can be built of sufficient force and size to transport a sufficiency of fuel, provisions, munitions of war and guns, to contend with even a heavy frigate, allowing the last to bring her broadside to bear."

New inventions—it can't be done.

When accomplished, too expensive for practical use—when in general use—is taken for granted.

Military Side of Aircraft Industry's Outlook

I would like to talk a minute or two more about the military side of the aircraft industry's outlook. During World War II, when all industry reached its peak of production, it was a fact that the aircraft industry was the largest industry in the world. This partly may have been because of the expanded use of air transport combined with the vital importance of aircraft as a war weapon, but that will always be the case for the aircraft industry from now on.

Immediately after World War II our government did not have a war policy in regard to national defense but that has now been accomplished. We are now rearming on a five-year program, in which the most vital question discussed to date has been, what constitutes the minimum peacetime airforce? The overwhelming vote in Congress last week for the 70-group plan will, no doubt, hold strong against the Administration's offer to increase to 66 groups over the original 55. The 70-group plan, which is roundly 21,000 airplanes of several different types and requires 502,000 men at a cost, which is expected to rise to a peak of $7½ billion annual appropriations by 1952.

The five-year program already embraces a distribution of business to the successful aircraft manufacturers that will keep us at a creative and productive strength that should be safe for rapid expansion in case of an emergency. The aircraft industry made, by far, the greatest expansion in World War II over any other industry, but with the present five-year plan and the greater business and administrative knowledge of the industry today assures the nation that the next war expansion requirement of the aircraft industry could be successfully met.

Since World War II the aircraft industry with Army and Navy cooperation has developed a pilotless aircraft division. The pilotless aircraft branches of the Army and Navy are growing rapidly in the very important field of national defense and I believe the aircraft industry is keeping pace. The entire defense organization has undergone tremendous changes since World War II and without your contact with it, it would seem almost unbelievable.

Most of the highly significant inventions and improvements in national defense are highly secret, but it is generally known that startling new plans of defense are necessary and require extreme mobility of all units of national defense.

While the Aircraft industry and the government have established new divisions in their aircraft list, covering rockets and several types of missiles, most of them equipped with electronics and carrying war heads far in excess of anything ever contemplated for war, the government is not unmindful of the changes in defensive tactics necessary for national defense against the day when some foreign power may have some of these frightfully destructive weapons in their own camp.

There is also a new list of bacteria for warfare which can be spread by airplanes and the results could be almost disastrous. Therefore, I speak plainly—*we just don't dare neglect war strength in the air in peacetime.*

The Venture Capital Problem

(Continued from page 8)

equity financing is brought to the market by bond houses, who also sell stocks, a whole new set of customers, who are stock buyers, now have to be found whereas 20 years ago the individual was in the aggregate the principal bond buyer as well as stock purchaser, and no single group of individuals could make or break an issue.

Position of Investment Bankers

Here let us take a look at the position of the issuers of equities and also the investment bankers with whom they may deal.

It is true that today the investment banker has to find in general entirely different customers for stocks than for bonds. Institutions buy the bonds and individuals buy the stocks. This makes it harder to sell stocks and often more costly. It is however undoubtedly true that because it is harder and therefore more costly, too many houses fail to interest enough individuals, in new as well as old issues of stocks and hence fail to give the necessary incentive. If anyone thinks that equities can be sold by competitive bidding with equal facility let me assure you they cannot with any assurance of success because it is a certain preventive of permitting security dealers to distribute properly the facts about a new issue. In competitive bidding no dealer dares to acquaint anyone outside of his own bidding group with the possible price to be paid or with other details of the security that might help the competitor so that only after the issue is brought out and offered to the public can this be done. It is then too late to undertake the work properly. This prohibits the procedure often practiced in negotiated deals. Then dealers can talk about the issue even the approximate price to be asked. The public is loathe to and should not buy equities that they know little about. The public cannot be properly informed under competitive bidding rules.

I have said and I repeat, that dealers when permitted to do so in negotiated deals, and in between such deals, should again arouse themselves to the task of creating greater proper incentive so that individuals may better understand when equity purchases are advantageous to themselves.

All this activity suggested on the part of dealers is impossible if the practice, too often indulged in on the part of industrial companies seeking equity money, of using every effort on behalf of their stockholders, but I suspect sometimes on behalf of their own personal satisfaction, to drive a hard bargain and thus try to force the public offering price of their own securities higher—to such I would suggest "Get off the dime and find the dollar."

When money was much higher than today and before competitive bidding forced bids too high for the public good, the spread between purchase price by underwriters and the public offering price was several times greater than today. Then dealers could afford to keep in touch with even very small investors. This change in trend undoubtedly has led industrial companies to attempt likewise to obtain the last dollar out of the public for their equity issues. It is not only a shortsighted policy for any issuer to follow for the good of his own company in the long run but it is contributing to the general lack of incentive on the part of all individuals to invest in equities.

No issuer should give money away unnecessarily but they should invest money in their own good will and in their own stake in maintaining a flow of venture capital.

By sqeezing the last dollar out of dealers and the public, as too often happens, an issuer lessens the effort of dealers to interest the public in equities generally and discourages investors directly by forcing, through driving tough bargains, the issue price of their own securities to dangerously high levels thereby creating too often unsuccessful issues. The individual has the right to expect and certainly to hope that what equities he buys will not immediately sink in value. The first Chairman of the SEC said just that to a small group of underwriters whom he called to Washington some thirteen years ago. I was one of those present. He admonished these dealers against bringing out new issues of securities too close to the prevailing market and stated that they should be issued to the public sufficiently below the market to ensure to the investor some market protection. Such a statement undoubtedly followed the mandates of Congress in security legislation, wherein the protection of the public was the primary objective.

Competitive bidding, whenever it is mandatory, as later developed in the SEC, wiped out any such policy. This has recently been the subject of others in public addresses and I will not elaborate upon it. In too many instances, I will say, however, competitive bidding has reversed that first SEC Chairman's policy as well as the principles inaugurated by the Congress in its securities legislation beginning in 1933, because competitive bidding seeks to protect primarily the issuer and lets the public be damned.

In my personal opinion based on facts as I know them competitive bidding was found necessary by the SEC, not because it was in the public interest but because it removed from the Commissioners the very real burden of any public official of taking the responsibility of deciding as required by the law that the price at which a public utility holding company sold its securities to dealers was fair to the seller.

Equity issues cannot be satisfactorily or safely sold through competitive bidding except in a rising market which I do not know how to predict and I do not believe you do. Yet to listen to the glowing accounts of the past by some government officers on the advantages to the public of competitive bidding you might think no corporation should think of financing itself through other means, and that investment bankers who opposed such a form of competition were working for themselves and against the public interest. By forcing too high the pubilc offering price by any other means, creates a duplication of the worst features of competitive bidding.

Before I make my closing statement I hope I will be pardoned if I invite your attention to the fact that I am a graduate of West Point and was a regular Army officer for 16 years thereafter until I resigned after World War I. They just refused to take me in World War II because I was approaching senility. I am not a pacifist.

So, after saying that, let me for a moment before I stop just think out loud.

Where is all of this money coming from that we are planning to spend and give away? The Government has none of it except what you and I and the rest of our people give to it. Why do responsible officers of government tell me, and for that reason I will not quote them that neither can this Administration nor any other Administration soon after a war appreciably cut non-military expenditures of government. Why is the cry against inflationary acts, of which I approve, leveled at industry so directly, when government blandly creates such acts and subsidizes price increases at times and fails to include inflationary actions by others which are equally important. Government has and will play so important a role in the economy of this nation that confidence in our government becomes one of the greatest factors in producing a flow of venture capital. It is not to be expected that any Administration is going entirely to divorce politics from its policies. That being the case let us at least have Government policies and politics friendly to industry and labor alike. One cannot do without the other in spite of the beliefs and tenets of Stalin which, in the New Deal Era, seemed to create a very favorable impression in some quarters of our government.

How does it happen that we suddenly know so much detail about the armament of Russia when we know so little about anything else there? While Russia is supposedly unsound economically certainly war-torn and allegedly trailing in mass production knowhow, how does it happen that whereas we had the greatest war machine in history and are currently spending billions on our armed forces, that we now are relatively destitute of material for defense while Russia is beautifully situated with plenty of everything much of it of the latest model?

Who really thinks Russia is just itching for a war now or in the immediate future?

I am for preparedness without questioning too closely expenses and I know only too well that this country can drift into a sorry state of unpreparedness where it may be today. I realize that propaganda which pictures war scares and fosters talk of new push button wars may be necessary to wake us up as a nation and billions may be necessary to spend on armament for defense. We are told this will soon drive us to deficit financing just as we are concerned with tax reduction which is an obvious incentive to prospective investors. When business men and equity investors find themselves crisis-hopping as MacArthur once was island-hopping and when we look back at those mountains of crises which we have passed and we see them often flatten out in the distance as MacArthur viewed the flattened rampants of the Japanese after he had left them behind, I am begininng to wonder—I repeat I am only wondering—I am wondering how we can expect to find enough venture capital to continue its flow sufficiently wherein risks of some sort always abound if we seemingly go out of our way to magnify purposely the risks which always disturb investors enough anyway in a war torn world? Are we going some day to find a lone horseman in the middle of a stream with a spare mount being offered to which he might change. I am merely wondering.

With Walston, Hoffman Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Marvin L. Gallagher has become connected with Walston, Hoffman & Goodwin, 550 South Spring Street. He was previously with First California Co.

Hannaford & Talbot Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Herbert A. Welch, Jr. has joined the staff of Hannaford & Talbot, 519 California Street.

With Waldron & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — James W. Lynch is with Waldron & Company, Russ Building.

Observations

(Continued from page 5)

been promulgated by Robert Nathan, Henry Wallace and Administration economists. Also fitting in this category of oscillating interpretation is the now-abandoned expectation of a repetition of the post-World War I deflation which was so elaborately demonstrated during recent bear markets. Instead, now *after the stock market rise*, factors like expected employment of over last year's 60 million figure and declining value of the dollar, are monopolizing the forum of market interpretation.

The Stock-Supply vs. Money-Demand Chameleon

The supply of money in relation to stocks is another element habitually used to rationalize up and down movements in stocks. During the roaring bull market of the late 1920's a leading justification for the fantastic earnings ratios up to 200-to-1 was the alleged scarcity value of stocks. Along the same lines a popular explanation of the *bull* movement of the mid-1940's was the nation's greatly expanded supply of money, in the face of the fact that the two previous *bear* markets had also occurred during major expansion in the money supply. And again during the past year of extraordinarily low price-earnings ratios, observers ranging from the loftiest insurance company officials and bankers to market letter-writers and margin clerks have fairly inundated us with variations of the query: "Where is the money coming from to finance the equity market?" In case of a further market rise, no doubt the recent elaborate statistical demonstrations of the tax-ridden investor's poverty will be completely supplanted by the already-heard slogan, "The big money will come in after Election day."

* * *

While the above commentary on the proclivity to chase price movements has referred to market observations of an economic and other qualitative nature, it also is applicable to the market technicians. Perusal of some of the current conclusions of the ratioists and other market "internalists" reveals that they too have revised their interpretations of their mechanistic tools—*post* (if not *propter*) the intervening market rise.

Why Support Government Bonds?

(Continued from page 11)

should not need support since the Treasury must pay them at par within so short a period.

(5) Holdings of insurance companies—$20 billion.

These are mostly of longer-term bonds held for income and not seriously affected by market prices.

(6) Long-term holdings of savings banks and like institutions—$10 billion.

(7) Long-term holdings of "others" (individuals, corporations, etc.)—$30 billion.

The last four items (numbers 4, 5, 6, and 7) totaling $105 billion have varying need of support, and the holders of most of them would gladly endure any decline due to lack of support rather than suffer continued inflation and high prices due to the methods of support which have been and are followed by the Federal Reserve Board. There are other possible methods of support. For example it might be provided by making such holdings available at par for taxes due the Federal Treasury as is the case with present issues of three-year tax notes.

There remain a little less than $30 billion of long-term governments held by the commercial banks. These were practically all acquired not by patriotic subscription to Treasury issues (the banks were barred from bond subscriptions in 1943) but voluntarily for investment by purchase on the market. Why give this bank holding a support not enjoyed by holders of savings bonds? If the banks can make long-term corporate loans as they do at fixed interest rates without anybody's support, surely they would not suffer much by ending Federal Reserve support of government bonds.

How Long Should Support Be Kept?

It is true that the Federal Reserve Board announced its intention to pay par to the banks for their government holdings. But for how long? Till all the government debt is redeemed? Surely we are not to support these outstanding government obligations whatever may be the consequence through so long a period. The power to change its declaration of intention with respect to the support of government bonds held by the banks is still in the Federal Reserve Board to be exercised in its discretion. It does not need new legislation to enable it to make a change, and it would seem a change is overdue.

The whole picture makes pretty clear that support of the government bond market is not so much for the holders of the bonds as for the issuer, that is, the Treasury. The purpose of the support is not to fix the price the holder can get if he wants to sell but to maintain the low interest rate the Treasury wants to pay.

These low interest rates maintained by monetary manipulation result in inflation of our currency, adulteration of our money supply, high prices, and demands for higher wages. These are the principal ills from which our economy presently suffers. They are the consequences of the government's own financial policies.

Bowlby With Gillespie Wouters

(Special to THE FINANCIAL CHRONICLE)

GREEN BAY, WIS.—Claude N. Bowlby has become associated with Gillespie & Wouters, Northern Building. He was formerly with Wayne Hummer & Co. and Harris, Burrows & Hicks.

With Dempsey-Tegeler Co.

(Special to THE FINANCIAL CHRONICLE)

LA JOLLA, CALIF.—Harper C. Olmstead has become associated with Dempsey-Tegeler & Co., 210 West Seventh Street, Los Angeles. He was formerly La Jolla representative for Conrad, Bruce & Co.

With Carter H. Corbrey

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—William P. Troth is with Carter H. Corbrey & Co., 650 South Spring Street. In the past he was with Morton Seidel & Co.

John B. Dunbar Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Ralph O. Proctor has been added to the staff of John B. Dunbar & Co., 634 South Spring Street.

Daniel M. Lear Opens

(Special to THE FINANCIAL CHRONICLE)

HOLYOKE, MASS.—Daniel M. Lear has opened offices at 1646 Northampton Street to engage in a securities business.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	May 2	86.6	80.0	88.3	96.4
Equivalent to—					
Steel ingots and castings produced (net tons)	May 2	1,560,900	1,442,000	1,591,600	1,686,900
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Apr. 17	5,390,650	5,377,400	5,240,250	4,912,100
Crude runs to stills—daily average (bbls.)	Apr. 17	5,521,000	5,568,000	5,344,000	4,686,000
Gasoline output (bbls.)	Apr. 17	16,588,000	16,569,000	15,600,000	14,042,000
Kerosine output (bbls.)	Apr. 17	2,390,000	2,472,000	2,531,000	2,038,000
Gas oil and distillate fuel oil output (bbls.)	Apr. 17	7,091,000	7,419,000	7,472,000	5,192,000
Residual fuel oil output (bbls.)	Apr. 17	8,755,000	9,168,000	9,006,000	7,910,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Apr. 17	110,838,000	111,589,000	113,247,000	103,825,000
Kerosine (bbls.) at	Apr. 17	12,015,000	11,438,000	9,948,000	9,477,000
Gas oil and distillate fuel oil (bbls.) at	Apr. 17	33,985,000	33,121,000	30,723,000	29,949,000
Residual fuel oil (bbls.) at	Apr. 17	49,110,000	49,228,000	47,603,000	42,458,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Apr. 17	785,668	683,852	700,482	865,844
Revenue freight rec'd from connections (number of cars)	Apr. 17	602,165	586,289	689,062	680,383
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS-RECORD:					
Total U. S. construction	Apr. 22	$136,743,000	$144,579,000	$137,910,000	$88,420,000
Private construction	Apr. 22	71,656,000	89,086,000	69,598,000	42,401,000
Public construction	Apr. 22	65,081,000	55,493,000	68,312,000	46,019,000
State and municipal	Apr. 22	55,751,000	42,944,000	63,630,000	35,372,000
Federal	Apr. 22	9,336,000	12,549,000	4,682,000	10,647,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Apr. 17	7,715,000	*2,435,000	4,360,000	12,828,000
Pennsylvania anthracite (tons)	Apr. 17	1,054,000	850,000	1,182,000	1,044,000
Beehive coke (tons)	Apr. 17	30,700	*11,800	51,700	121,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Apr. 17	294	298	313	271
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Apr. 24	5,027,280	5,086,826	5,064,555	4,667,997
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Apr. 22	100	101	101	66
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Apr. 20	3.23940c	3.23940c	3.23940c	2.86354c
Pig iron (per gross ton)	Apr. 20	$40.11	$40.11	$40.29	$33.15
Scrap steel (per gross ton)	Apr. 20	$40.33	$40.33	$40.25	$31.83
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Apr. 21	21.200c	21.200c	21.200c	21.225c
Export refinery at	Apr. 21	21.425c	21.550c	21.675c	23.675c
Straits tin (New York) at	Apr. 21	94.000c	94.000c	94.000c	80.000c
Lead (New York) at	Apr. 21	17.500c	17.500c	15.000c	15.000c
Lead (St. Louis) at	Apr. 21	17.300c	17.300c	14.800c	14.800c
Zinc (East St. Louis) at	Apr. 21	12.000c	12.000c	12.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Apr. 27	100.85	100.82	100.90	104.42
Average corporate	Apr. 27	112.37	112.19	111.25	117.40
Aaa	Apr. 27	117.60	117.40	116.61	122.50
Aa	Apr. 27	115.63	115.43	115.04	120.63
A	Apr. 27	111.62	111.81	110.70	117.00
Baa	Apr. 27	105.17	104.83	103.64	110.34
Railroad Group	Apr. 27	107.09	106.92	105.86	112.56
Public Utilities Group	Apr. 27	113.89	113.89	113.12	118.30
Industrials Group	Apr. 27	116.22	116.02	115.43	121.25
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Apr. 27	2.44	2.44	2.44	2.20
Average corporate	Apr. 27	3.04	3.05	3.10	2.78
Aaa	Apr. 27	2.77	2.78	2.82	2.53
Aa	Apr. 27	2.87	2.88	2.90	2.62
A	Apr. 27	3.08	3.07	3.13	2.80
Baa	Apr. 27	3.44	3.46	3.53	3.15
Railroad Group	Apr. 27	3.33	3.34	3.40	3.03
Public Utilities Group	Apr. 27	2.96	2.96	3.00	2.71
Industrials Group	Apr. 27	2.84	2.85	2.88	2.59
MOODY'S COMMODITY INDEX	Apr. 27	413.2	422.5	411.9	403.1
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Apr. 24	237.0	236.6	232.7	218.5
Fats and oils	Apr. 24	283.3	276.3	248.8	286.3
Farm products	Apr. 24	257.0	258.5	251.1	242.5
Cotton	Apr. 24	365.1	357.4	329.7	336.1
Grains	Apr. 24	267.6	275.7	275.7	249.9
Livestock	Apr. 24	240.0	241.8	236.1	228.1
Fuels	Apr. 24	228.6	*228.6	*228.6	169.8
Miscellaneous commodities	Apr. 24	176.1	174.8	175.0	157.8
Textiles	Apr. 24	215.8	214.1	211.7	217.3
Metals	Apr. 24	164.9	164.9	163.5	148.1
Building materials	Apr. 24	227.3	227.3	233.3	203.3
Chemicals and drugs	Apr. 24	155.4	156.7	156.8	156.9
Fertilizer materials	Apr. 24	136.4	137.2	137.6	127.5
Fertilizers	Apr. 24	143.7	143.7	143.7	134.0
Farm machinery	Apr. 24	138.8	138.8	138.8	125.5
All groups combined	Apr. 24	220.4	*220.5	*218.3	196.7
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Apr. 17	160,524	163,880	157,299	170,806
Production (tons)	Apr. 17	186,438	193,572	192,531	177,478
Percentage of activity	Apr. 17	100	103	104	102
Unfilled orders (tons) at	Apr. 17	403,008	434,430	439,166	560,739
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Apr. 23	146.5	*146.6	145.4	148.9
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Apr. 17	162.9	160.6	161.5	147.2
Farm products	Apr. 17	189.2	183.1	187.6	175.4
Foods	Apr. 17	178.8	174.5	176.4	162.2
Hides and leather products	Apr. 17	187.2	186.2	185.9	172.5
Textile products	Apr. 17	145.9	145.5	145.6	138.8
Fuel and lighting materials	Apr. 17	131.9	131.8	131.7	104.1
Metal and metal products	Apr. 17	157.1	157.1	156.0	140.9
Building materials	Apr. 17	194.9	193.4	192.6	178.4
Chemicals and allied products	Apr. 17	136.8	136.8	135.8	132.5
Housefurnishings goods	Apr. 17	144.7	144.7	144.3	128.1
Miscellaneous commodities	Apr. 17	121.5	120.7	119.9	115.6
Special groups—					
Raw materials	Apr. 17	178.0	174.1	176.5	160.3
Semi-manufactured articles	Apr. 17	153.6	153.6	153.3	146.0
Manufactured products	Apr. 17	157.8	156.0	156.3	142.1
All commodities other than farm products	Apr. 17	157.1	155.6	155.7	141.1
All commodities other than farm products and foods	Apr. 17	148.3	147.9	147.3	132.4

*Revised figure.

	Latest Month	Previous Month	Year Ago
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE) — Month of February:			
Total shipments (thousands of pounds)	135,935	139,588	123,559
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of March	7,612,624	*6,940,210	7,307,486
AMERICAN PETROLEUM INSTITUTE—Month of January:			
Total domestic production (bbls. of 42 gallons each)	175,828,000	177,800,000	155,451,000
Domestic crude oil output (bbls.)	163,781,000	165,443,000	144,800,000
Natural gasoline output (bbls.)	11,997,000	12,307,000	10,571,000
Benzol output (bbls.)	50,000	50,000	80,000
Crude oil imports (bbls.)	8,427,000	8,812,000	7,763,000
Refined products imports (bbls.)	5,479,000	6,126,000	6,207,000
Indicated consumption—domestic and export (bbls.)	199,763,000	206,764,000	183,379,000
Decrease—all stock (bbls.)	10,029,000	14,026,000	13,958,000
AMERICAN ZINC INSTITUTE, INC.—Month of March:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	73,209	66,784	75,376
Shipments (tons of 2,000 lbs.)	76,241	*73,608	75,788
Stock at end of period (tons)	45,229	*48,261	162,049
Unfilled orders at end of period (tons)	61,610	72,224	56,609
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES Month of March:			
New England	$13,632,673	$8,141,187	$10,009,132
Middle Atlantic	69,345,082	53,277,733	74,141,842
South Atlantic	25,099,432	22,631,690	20,259,565
East Central	58,152,603	38,965,760	46,771,670
South Central	62,828,452	41,558,175	26,546,321
West Central	17,895,915	8,246,656	10,259,618
Mountain	9,221,686	6,544,474	5,659,130
Pacific	80,910,187	56,425,947	41,415,985
Total United States	$337,086,030	$285,791,122	$235,063,263
New York City	40,756,373	37,895,315	61,422,127
Outside of New York City	296,329,657	197,896,307	173,641,136
CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS—U. S. DEPT. OF COMMERCE—Month of March	$595,500,000	$199,400,000	------
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES—			
Lint—Consumed Month of March	878,714	785,231	875,306
In consuming establishment as of Mar. 31	2,286,114	2,243,185	2,234,321
In public storage as of Mar. 31	3,676,735	4,470,307	3,339,213
Linters—Consumed Month of March	103,751	97,921	86,339
In consuming establishments as Mar. 31	295,070	273,771	309,607
In public storage as of Mar. 31	64,126	61,365	72,096
Cotton spindles active as of Mar. 31	21,708,000	21,489,000	21,959,000
COTTON SPINNING (DEPT. OF COMMERCE)			
Spinning spindles in place on March 31	23,763,000	23,720,000	23,807,000
Spinning spindles active on March 31	21,708,000	21,489,000	21,953,050
Active spindle hours (000s omitted), March	11,005,000	9,819,000	10,029,510
Average spindle hours per spindle in place, March (000's omitted)	492	440	421
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. 1935-39 AVERAGE =100—Month of March:			
Sales (average monthly), unadjusted	248	182	233
Sales (average daily), unadjusted	234	202	*228
Sales (average daily), seasonally adjusted	229	241	*228
Stocks, unadjusted as of Feb. 29	254	*232	*240
Stocks seasonally adjusted as of Feb. 29	255	250	242
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of January (000's omitted)	20,267,417	19,617,041	18,303,206
Revenue from ultimate customers—month of January	$362,162,700	$351,460,200	$326,660,100
Number of ultimate customers at Jan. 31:	38,599,687	38,431,950	36,261,549
EMPLOYMENT AND PAYROLL—U. S. DEPT. OF LABOR—Month of February:			
All manufacturing	12,748,000	*12,847,000	12,593,000
Durable goods	6,520,000	*6,618,000	6,502,000
Non-durable goods	6,228,000	6,229,000	6,091,000
Employment indexes—			
All manufacturing	155.6	*156.8	153.7
Durable goods	180.6	*183.3	180.1
Non-durable goods	136.0	136.0	133.0
Payroll indexes—			
All manufacturing	344.9	*349.7	310.6
Durable goods	381.1	*391.6	344.6
Non-durable goods	309.5	308.7	277.4
Estimated number of employees in manufacturing industries—			
All manufacturing	15,775,000	*15,878,000	15,475,000
Durable goods	7,937,000	*8,041,000	7,857,000
Non-durable goods	7,838,000	*7,837,000	7,618,000
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of March (1935-39 Average=100)	**132.3	**131.7	133.2
LIFE INSURANCE PURCHASES—INSTITUTE OF LIFE INSURANCE—Month of March (000's omitted)—			
Ordinary	$1,242,718	$1,331,394	$1,283,161
Industrial	225,202	178,354	181,315
Group	342,917	272,132	381,519
Total	$1,810,837	$1,781,880	$1,845,995
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of February:			
Shipments (in pounds)	413,000	314,000	752,000
RR. EARNINGS—CLASS I ROADS (ASSOC. OF AMER. RRS.)—Month of February:			
Total operating revenues	$715,890,641	$750,734,787	$636,240,256
Total operating expenses	586,355,682	615,855,516	509,532,044
Operating ratio—per cent	81.91	82.03	80.08
Taxes	$77,254,849	$79,004,455	$69,882,047
Net railway operating income before charges	39,425,295	41,297,152	43,820,930
Net income after charges (est.)	17,500,000	19,000,000	17,200,000
SOFTWOOD PLYWOOD ((DEPT. OF COMMERCE)—Month of February:			
Production (M sq. ft. 3/8-in. equivalent)	156,285	*159,395	129,622
Shipments and consumption (M sq. ft., 3/8-in. equivalent)	155,486	*153,017	127,658
Stocks (M sq. ft., 3/8-in. equivalent) at end of month	39,273	*37,755	31,995
Consumption of logs (M ft., log scale)	69,411	*69,238	58,018
Stocks (M ft., log scale) at end of month	171,675	*190,769	119,151

*Revised figure. **Preliminary figure.

The Challenge to Business

(Continued from page 18)

and lead to heavy unemployment. There is no need, however, for this serious drop in demand if the public is educated to accept and insist on the higher standards of living made possible by our productivity and by the increased real purchasing power resulting from increased productivity. Let's just look at some of the facts of our present economy from a marketing standpoint. First, let's analyze ability to consume.

Ability to Consume

A study of different standards of living actually existing at different levels of income, prewar, shows clearly that the standard of living of the typical American family could be doubled without reaching what might be called

HOW CONSUMPTION INCREASED WITH FAMILY INCOME—1941

	Annual Family Income Group $1,000-$1,500 (50% were below $1,500 in 1941) $25 per Week	$2,000-$3,000 (35% were above $2,000 in 1941) $50 per Week	% Increase in Consumption
Total family expenditures for goods and services	$1,173	$2,214	89%
Food	402	693	73
Housing, fuel, light & refrigeration	221	394	78
Household operation	46	92	100
Furnishings and equipment	68	135	99
Clothing	137	262	91
Auto transportation	100	248	148
Other transportation	20	43	115
Personal care	26	47	81
Medical care	63	102	62
Tobacco	27	47	74
Recreation	33	85	158
Reading	12	22	83
Formal education	4	18	350
Miscellaneous family expenses	14	26	86

Source: U. S. Bureau of Labor Statistics, Bulletin No. 822—Page 75

	—(Billions)— 1940	Estim. 1948	Percent. Increase
Disposable Personal Income After Taxes	$75.7	$197.0	160%
Basic Living Costs to Maintain 1940 Standard of Living for Food, Clothing and Shelter	49.2	95.0	93
Surplus Income for Discretionary Spending or Saving	$26.5	$102.0	285
Personal Savings	3.7	12.0	224
Income for Discretionary Spending	$22.8	$90.0	*295%

* 4 times as much as in 1940.

	1940	Estimated 1948	Percent. Increase
Disposable Personal Income After Taxes (billions)	$75.7	$197.0	160%
Consumer Price Index (1940=100)	100	170	70
Real Disposable Income in 1940 Dollars (billions)	$75.7	$115.9	53
Real Disposable Income Per Family in 1940 Dollars	$2,166	$2,925	35

CHART I

HOW CONSUMPTION INCREASED WITH FAMILY INCOME, 1941

The $25 per week family typified our economy in 1941—An economy typified by the $50 per week family ($50 of real purchasing power) is not too high a goal for our productive ability. Major increases in consumption and potential markets would result.

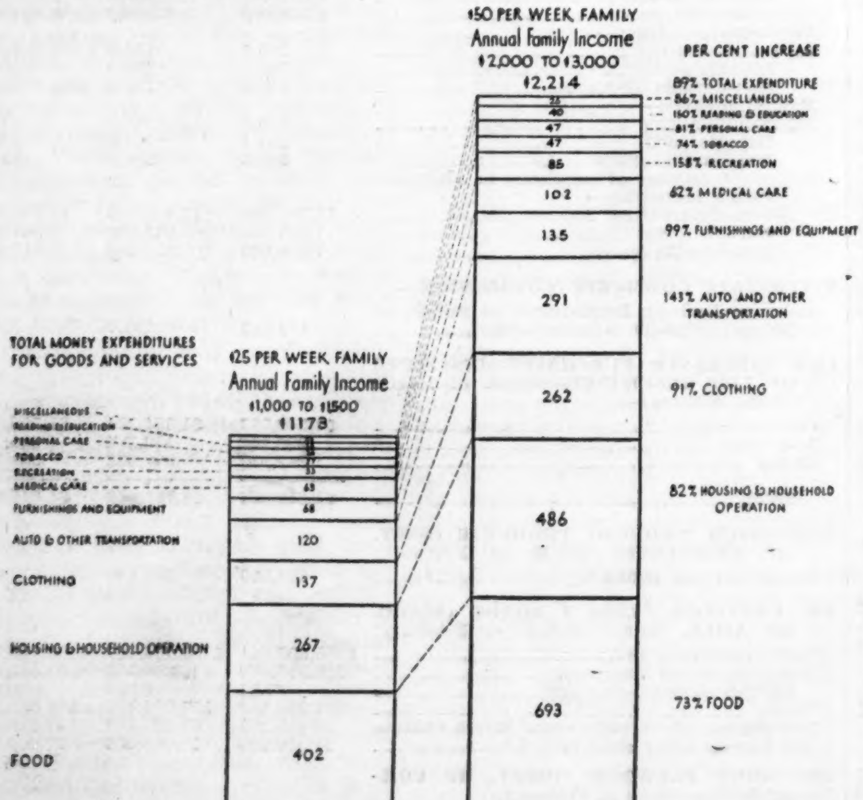


TABLE I

Both Productivity Per Capita And Real Disposable Personal Income Per Capita Increased By One-Third from 1940 to 1947

	1940	1947	% Increase Over 1940	1948 Opportunity	% Increase Over 1940
Population (thousands)	131,970	144,002	9%	145,340*	10%
Number of Employed Civilians (thousands)	47,520	58,027	22	59,000	24
Consumer Price Index (1935-1939=100)	100	159	59	170	70
Federal Reserve Board Index of Industrial Production (1935-39=100)	125	187	50	197	58
Productivity—					
Gross National Product (billions)	$100.5	$229.6	128	$260.0	159
Real Gross Nat'l Product in 1940 Dollars (billions)	$100.5	$144.4	44	$152.0	52
Per Capita	$761	$1,003	32	$1,205	38
Per Employed Civilian	$2,115	$2,488	18	$2,592	23
Purchasing Power—					
Disposable Personal Income After Taxes (billions)	$75.7	$175.3	132	$197.0	160
Real Disposable Personal Income After Taxes in 1940 Dollars (billions)	$75.7	$110.3	46	$115.9	53
Per Capita	$574	$756	33	$797	39
Disposable Income as a Share of Gross Nat'l Product	75%	76%		76%	

*January 1.

Source: 1940 and 1947 based on figures from the Economic Report of the President, January, 1948. Opportunity for 1948 is estimated on basis of conditions existing in the first half of 1948.

Note that real per capita purchasing power increased in direct proportion to per capita productivity—both increased one-third from 1940 to 1947. Also note that Disposable Personal Income remained at approximately 75% to 76% of the Gross National Product. In other words, as total production increased so did the real purchasing power of the American people.

excesses. Prewar, in 1941, the $25 a week family typifid the American economy. Approximately half of the families in America had incomes above this level and approximately half had incomes below this level. In that same year a detailed government study of items purchased by families in different income groups showed that families with incomes of $50 a week were buying and consuming at the rate of almost double the $25 a week family for most items. (See Chart I).

Certainly the standard of living of the $50 per week family in 1941 could not be called an excessive goal or a luxury standard of living in terms of our ability to produce, yet it could mean markets nearly double our best prewar levels in terms of units of physical goods and services or better quality.

We already have passed the point where our economy is typified by families with $50 per week money income, since, in 1947, approximaely 28 million or 60% of our consumer spending units had money incomes of over $2,000 per year compared with 14 million or only 35.6% in 1941 and 3¼ million or 16% in 1935-36 with incomes over $2,000. Unfortunately, inflation and taxes have taken such a large bite out of increased income that we have progressed less than half way to the goal of doubling the real purchasing power and the resulting standard of living of our people compared to the best prewar levels.

But the fact that we have gone half way and already have a real purchasing power 53% higher than in 1940 is of major significance and presents a real challenge to business to maintain this level and to drive on to the attainable goal of double prewar in consumption and production.

Real Purchasing Power in 1948 Is at a Level 53% Over 1940

The estimated level of disposable personal income of our population for 1948, after taxes and full correction for increased prices, is 53% greater than in 1940. In other words, the American population has the buying power ability to buy and consume 53% more physical goods and services now than in the last full year before we entered the war.

(See Table 1 and Chart 2.)

Chart 2 illustrates what has happened to the real purchasing power of the American public since 1940 showing actual figures reported by the Government for 1947 and estimated figures for 1948.

Disposable personal income after taxes in 1948 is likely to reach a level of $197.0 billion compared with $75.7 billion in 1940. This is an increase of $121.3 billion in disposable money income, but $81.1 billion of this is dissipated by inflation in prices leaving $40.2 billion in additional real purchasing power. This makes possible a 53% increase in the number of units or in improved quality that our population can buy to improve its standard of living over 1940.

Taking into account the increase in the number of families since 1940, this represents an increase of 35% in the real purchasing power per family since 1940.

To make possible the 53% increase in total real buying power the nation's productivity has had to show a corresponding increase—real income must always, in the long run, depend on productivity. Any increased income not supported by increased productivity becomes inflation and can not result in any improvement in real income or standard of living.

The increase in consumer income since before the war becomes particularly significant to business executives when the income is divided into the amount needed to maintain a 1940 basic standard of living and the amount left over as discretionary spending power available to improve the standard of living. (See Chart 3 and Table 2)

A Fourfold Increase in Money for Discretionary Spending Since 1940

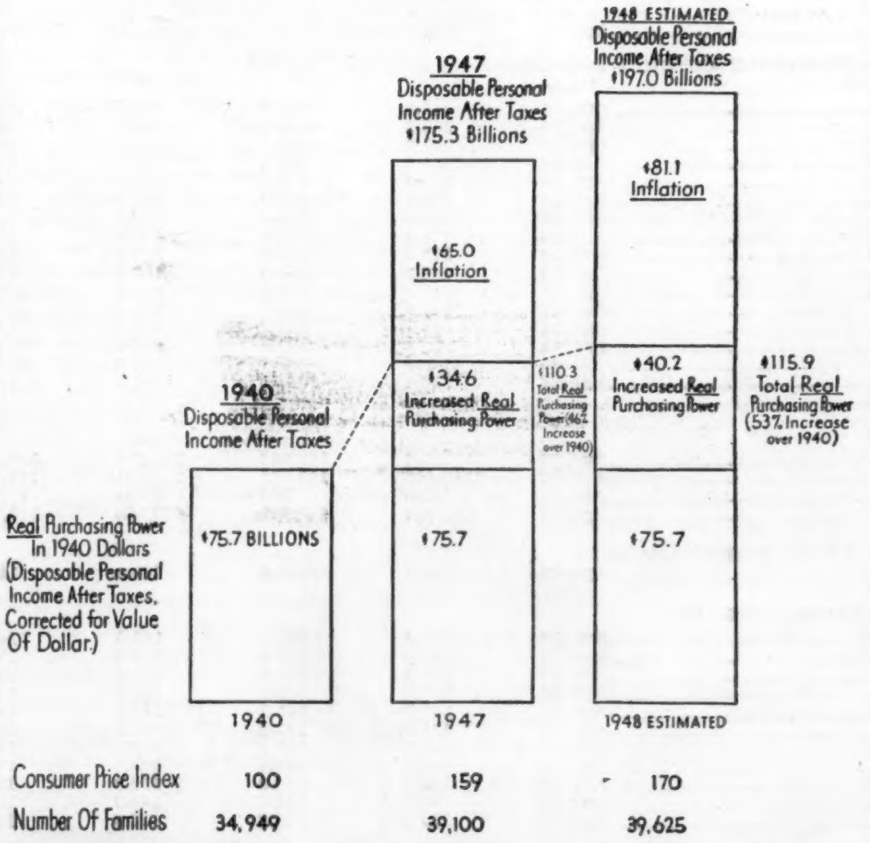
After allowing for taxes, personal savings and the expenditures necessary to maintain a 1940 basic standard of living for food, clothing and shelter for our whole population at present high prices, there apparently will be a balance of $90.0 billions of current income left for discretionary spending in 1948 as compared with only $22.8 billion in 1940.

This discretionary spending power alone in 1948 is greater than the total income in 1940 and is approximately four times as great as the income available for discretionary spending in 1940. How consumers will apply this vast pool of new discretionary spending power is a matter of their own discretion. They could put it into additional savings, into increasing the quantity or quality of their basic living items of food, clothing or shelter, or into additional things they may desire which they never have had before. Since this $90 billion is discretionary spending power beyond the things considered basic necessities in 1940, it represents a wide open opportunity for every seller of goods or services to influence and guide the direction of this purchasing.

It is obvious that times have

CHART II

1948 REAL CONSUMER PURCHASING POWER 53% ABOVE 1940



changed since before the war and changed since before the war and concepts of marketing must change with the times. The change in the distribution of families by income groups and the fourfold increase in discretionary spending power has opened new vistas to advertisers. There is no real limit to potential desires—or to the size of the potential market—so long as increased productivity provides the revenue and purchasing power. But, desire must be stimulated to a point of sustained consumption if we are to have a market for all that we can produce. The creation of this desire is an educational job and advertising has proved itself in the past, and can prove itself again, to be a powerful educational force.

CHART III

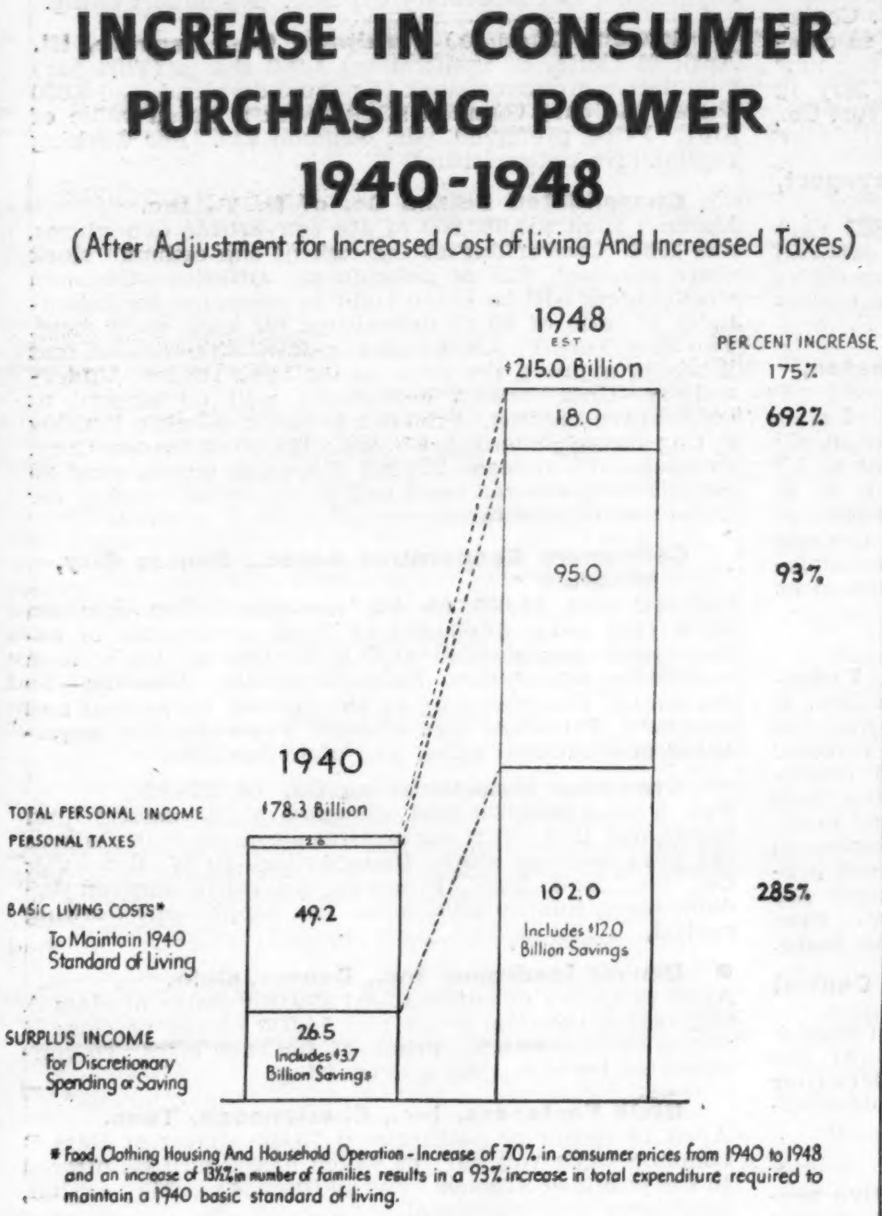
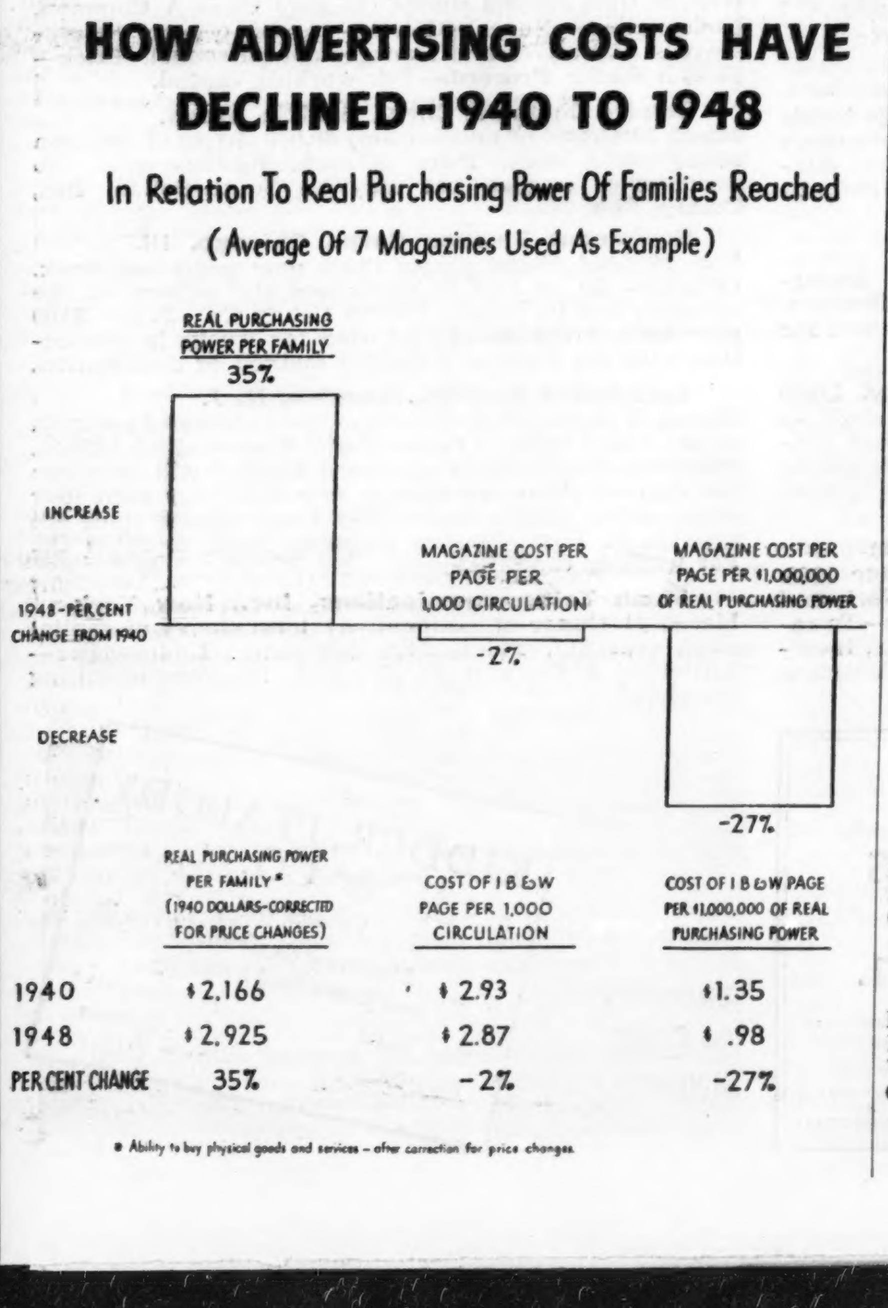


CHART IV



As a part of this recognition of changed market opportunities, business could well review its tools of marketing and selling as it has its tools of production. The economies of mass production have been apparent in passing on cost and quality advantages to the consumer. The economies of mass education — advertising — in providing the markets that make mass production possible have not been as fully recognized. It is not generally recognized, for example how far advertising costs have declined since 1940 in relation to the real purchasing power of the families reached.

Magazine Advertising Cost Has Declined 27% Since 1940 in Relation to Real Purchasing Power Reached

Taking an average of 7 leading magazines (3 weeklies and 4 women's), as an example, the cost of delivering a full page advertising message to a family in 1948 is 2% under the cost for the same publications in 1940, yet the average family in the United States in 1948 represents a market for goods and services 130% greater than in 1940 in dollars (disposable income per family after taxes), and 35% greater in **real** purchasing power after correction for price changes. In other words, each advertising message in 1948 is reaching a family that can buy, on the average, 35% more units at present higher prices than the average family reached in 1940 could buy, yet the cost of reaching the family has dropped 2%. As a result, the cost of having an equal opportunity to influence a unit of purchase through a magazine page is 27% less in 1948 than in 1940. (See Chart 4 and Tables 3 and 4.) Similar declines in costs in relation to real purchasing power reached could be shown for other major advertising media.

The major changes that have taken place since prewar in market potentials as a result of a 160% increase since 1940 in total consumer disposable income after taxes, a discretionary income four times as large as in 1940 and an increase of 53% in **real purchasing** power after full correction for higher prices, all indicate the wisdom of questioning prewar yardsticks used in setting advertising and sales budgets.

These budgets should be judged not on the basis of level of prewar expenditures, or on prewar relationships to unit or dollar sales, but rather on the basis of the job to be done against present market potentials.

Here, then, is a real challenge to business — to give recognition and study to the market opportunities and new potentials that exist as a result of our newly proved ability to produce and the improved standards of living that are possible — to appreciate the importance to the strength of our nation of maintaining a high level of production, employment, and consumption through development of markets and desires.

America can have a dynamic economy — an economy limited only by the productive ability of our people and our ability to consume or provide a ready market for what we can produce. This creation of the ready market, which in turn provides employment, offers a major challenge to business today.

TABLE II

How Consumer Purchasing Power Has Increased From 1940 to 1948

	1940	Estimated 1948	Per Cent Increase Over 1940
Total U. S.—All Families—			
Total Personal Income (billions)	$78.3	$215.0	175%
Less personal taxes (billions)	2.6	18.0	692
Total Disposable Personal Income After Taxes (billions)	$75.7	$197.0	160
*Less Basic Living Costs to Maintain 1940 Standard of Living (billions)	49.2	95.0	93
Surplus Income for Discretionary Spending or Saving (billions)	$26.5	$102.0	285
Less Personal Saving	3.7	12.0	224
Net Balance for Discretionary Spending	$22.8	$90.0	295
Average Per Family—			
Estimated Number of Families (000)	34,949	†39,625	13½
Per Family: Total Personal Income	$2,240	$5,426	142
Less Personal Taxes	74	454	514
Disposable Income	$2,166	$4,972	130
*Basic Living Costs to Maintain 1940 Standard of Living	1,408	2,397	70
Surplus Income for Discretionary Spending or Saving	$758	$2,575	240

*Basic living costs for food, clothing and shelter in 1940. Includes all food and beverages, clothing and accessories (except jewelry), housing, household operation (including furniture, refrigerators, domestic service, telephone and telegraph, fuel, etc.) as reported under Personal Consumption Expenditures in July, 1947 National Income Supplement to Survey of Current Business. To maintain the 1940 basic standard of living for food, clothing and shelter, the average family in 1948 would have to spend 70% more on the basis of the estimated average level of the Consumer Price Index of the U. S. Department of Commerce for 1948 (estimated index at 170). Expenditures beyond this for food, clothing and shelter would represent a discretionary improvement in the standard of living. †Jan. 1, 1948.

TABLE III

How Advertising Costs Have Declined—1940 to 1948 In Relation to Real Purchasing Power of Families Reached

	1940	Estimated 1948	% Change
Total Families (000)	34,949	39,625	13½%
Disposable Income After Taxes (billions)	$75.7	$197.0	160
Per Family	$2,166	$4,972	130
Consumer Price Index	100	170	70
*Real Purchasing Power Per Family (Disposable Income After Taxes in Terms of 1940 Dollars)	$2,166	$2,925	35
Magazine Cost—Average of 7 Magazines (3 Weeklies and 4 Women's)			
Cost of 1 Page B&W Per 1,000 Families	$2.93	$2.87	— 2
Cost of 1 Page B&W Per $1,000,000 of Real Purchasing Power (1940 Dollars)	$1.35	$.98	—27
Cost of 1 Page B&W Per $1,000,000 of Current Disposable Income	$1.35	$.58	—57

*Ability to buy physical goods and services—after correction for price changes.

TABLE IV

Typical Changes in Advertising Rates—Magazines

(October, 1948 versus July, 1940)

	Guaranteed Circulation (000's Omitted) 1940	1948	Black & White —Page Rate— 1940	1948	Cost Per Page Per 1,000 –Circulation– 1940	1948
General Weeklies—						
Life	2,000	5,200	$5,700	$16,600	$2.85	$3.19
Saturday Evening Post	2,700	3,800	8,000	11,200	2.96	2.95
Collier's	2,500	2,800	6,500	8,000	2.60	2.86
Total 3 Weeklies	7,200	11,800	$20,200	$35,800	$2.81	$3.03
Women's Service Magazines						
Ladies' Home Journal	2,800	4,500	8,500	12,900	3.04	2.87
McCall's	2,600	3,750	7,800	10,000	3.00	2.67
Woman's Home Companion	2,800	3,500	8,550	9,250	3.05	2.64
Good Housekeeping	2,100	2,700	6,300	7,500	3.00	2.78
Total 4 Women's	10,300	14,450	$31,150	$39,650	$3.02	$2.74
Total 7 Magazines	17,500	26,250	$51,350	$75,450	$2.93	$2.87

U. S. National of Portland Appoints Espy V.-P.

Cecil J. Espy, veteran of 30 years of banking in Oregon, was promoted to an Assistant Vice-Presidency on April 3 by the **United States National Bank of Portland,** according to announcement by E. C. Sammons, President. The foregoing is from an item by Frank Barton, Financial Editor of the Portland "Oregonian" appearing in the April 4 issue of that paper, in which it was also noted:

"At the same time Mr. Sammons announced the advancement of Melvin C. Barcus to the position of Assistant Cashier and the appointment of James H. Innes to the Managership of the bank's new Yoncalla branch. Mr. Innes succeeds A. L. Lasswell, Douglas county banker, who retired from that position."

California Bank Society To Hold Barbecue

The Calbank Recreational Association of **California Bank, Los Angeles,** will hold its third annual all-bank barbecue at Valley Park Country Club, Sherman Oaks, on July 25. Special entertainment, swimming, games and sporting events for everyone, are planned, according to Willard G. Goldsmith, advertising department, general chairman of the barbecue.

Mackenzie Director of National Bank of India

E. J. Mackenzie Hay, Chairman of **J. H. Vavasseur & Co. Ltd.,** has joined the board of **directors** of the **National Bank of India Ltd.,** it was announced on April 13.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Air Lanes, Inc., Portland, Me.
April 26 (letter of notification) 10,000 shares of preferred stock and 10,000 shares of common. **Price**—Preferred, $10 per share and common 1 cent. For plant and equipment costs and working capital. **Underwriter**—Frederick C. Adams & Co., Boston.

• Ambassador Mines Corp., Spokane, Wash.
April 21 (letter of notification) 100,201 shares of nonassessable common stock. **Price**—25 cents. For mining machinery and equipment. No underwriting.

American Broadcasting Co., Inc., New York
Feb. 13, filed 250,000 shares common ($1 par) at proposed maximum offering price of $12.50 per share. **Underwriters**—None. **Proceeds**—For corporate purposes. Company now has plans to spend about $5,325,000 for television facilities in New York, Los Angeles, Chicago San Francisco and Detroit. Shares will be sold to "the persons with which the company had network affiliation agreements at Jan. 31, 1948, and to such other persons as may be selected from time to time by the company."

• American Clay Forming Co., Tiffin, Ohio
April 19 (letter of notification) 4,064 shares ($10 par) common stock. **Price**—$16.50 each. For additional equity working capital. No underwriting.

• American Envelope Co., Cleveland, Ohio
April 22 (letter of notification) 3,000 shares of 5½% cumulative preferred stock. **Price**—$100 and dividends from May 1. To be sold to officers, directors and principal stockholders. Cost of a new paper mill at West Carrolton, Ohio. No underwriting.

Ampal-American Palestine Trading Corp., N. Y.
April 7 filed $10,000,000 10-year 3% sinking fund debentures. **Underwriter**—Name to be filed by amendment, if any is used. **Proceeds** — $5,000,000 in mortgage loans for construction of housing in Palestine, $2,500,000 in loans to transportation and industrial cooperatives, and $2,200,000 in loan to Solel Boneh, Ltd., for public works.

• Anchor Steel & Conveyor Co., Detroit
April 19 (letter of notification) 100,000 shares ($1 par) common stock for company and 20,000 shares for Frank J. Shude, President. **Price**—$2.50 each. **Underwriters**—C. G. McDonald & Co., Detroit and Investment Securities Co., Jackson, Mich. For working capital.

Angus Mines, Ltd., Montreal, Canada
Feb. 12 filed 600,000 shares of common capital stock ($1 par). **Underwriter**—James A. Robb, 70 Pine St., New York. **Proceeds**—To develop gold prospects.

Atlantic Coast Fisheries Co. (5/11)
Feb. 2 filed $556,500 4½% general mortgage and collateral trust convertible bonds and 166,950 shares ($1 par) common stock. **Underwriter** — Doolittle & Co., Buffalo. **Offering**—Bonds are offered to stockholders of record April 14 at par (flat) in ratio of $1.50 of bonds for each common share held. Rights expire May 10. The stock will be reserved against conversion of the bonds. Unsubscribed bonds will be publicly offered by underwriter. **Proceeds**—General corporate purposes.

• Atlas Instrument Co., Haddenfield, N. J.
April 23 (letter of notification) 20,000 shares of common stock (par $5). **Price**—Par. **Underwriting**—None. To retire bank mortgage and loans, purchase of equipment, etc.

• Bareco Oil Co., Tulsa, Okla.
April 26 filed 162,435 shares ($1 par) common stock. **Underwriter**—Kebbon, McCormick & Co., Chicago. **Price**—$7 each. Shares are owned by the Phillips Petroleum Co. **Business**—Refining crude oil.

Blue Ridge Insurance Co., Shelby, N. C.
March 31 (letter of notification) 17,600 shares ($10 par) capital stock. **Price**—$16 to stockholders with subscription rights and $16.75 to others. For working capital and general corporate purposes. No underwriting.

• Bristol-Myers Co., New York
April 23 filed $10,000,000 20-year debentures. **Underwriter**—Wertheim & Co., New York. Price and interest rate to be filed in an amendment. **Proceeds**—To pay off bank loans and improve working capital position. **Business**—Drugs.

• Brown & Scott Packing Co., Wilmington, Del.
April 26 (letter of notification) 2,000 shares 7% non-cumulative preferred stock ($100 par). **Price**—Par. Each purchase of five shares will be accompanied by two free shares of common stock, given by Mark P. Brown, President, and Donovan A. Scott, Vice-President and Treasurer. To build a meat packing plant. No underwriting.

• Brunner Manufacturing Co., Utica, N. Y.
April 21 (letter of notification) 33,333⅓ shares of common stock (par $1). **Price**—$6.25 per share. **Underwriters**—Mohawk Valley Investing Co. Inc.; George H. Cooley & Co., Inc. and Cohu & Co. **Offering**—Offered to common stockholders of record April 28 in ratio of one new share for each six shares held. Rights expire May 12 and subscriptions are payable at First Bank & Trust Co., Utica, N. Y. General corporate purposes.

• Caldwell Land & Timber Co., Inc., Shreveport, Louisiana
April 21 (letter of notification) 500 shares ($25 par) preferred stock and 20,000 shares (no par) common stock. **Price**—Preferred, par; common $1. For operating costs in selling and erecting parking decks. No underwriting.

Carolina Casualty Insurance Co., Burlington, North Carolina
March 30 (letter of notification) 100,000 shares of class B common stock, to be offered by the company at $2; also, 40,000 shares of class B stock, to be sold at $2 by Baylor's Insurance Service, Inc., and 4,000 by R. S. Dickson Co. The latter firm will also sell 500 shares of Carolina Casualty class A stock. Proceeds from the sale of stock by the company itself will be used to supplement working capital. **Underwriter**—To be named in an amendment.

Central Maine Power Co.
Nov. 10 filed 160,000 shares ($10 par) common. **Underwriting**—Company called for competitive bids Dec. 8, 1947 and only one bid, that of Blyth & Co., Inc. and Kidder, Peabody & Co. was submitted and was rejected by the company. They bid $13.75, less $1.75 underwriting commission. Now expected on negotiated basis through Blyth & Co., Inc. **Offering**—To be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share and one-tenth share of new common for each common share held. Price by amendment. **Proceeds**—For construction and repayment of bank loans.

Central Mining & Development Corp., Central City, Colo.
March 25 (letter of notification) 150,000 shares of class A common stock ($1.50 par) and 34,125 shares ($1 par common) stock. **Price**—Par for each class. **Underwriter**—Carter H. Corbrey Co., Chicago. For mine development and working capital.

Central Power & Light Co.
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Lehman Brothers; Glore, Forgan & Co., Dewar, Robertson & Pancoast. **Proceeds**—For property additions and expenses. On April 15, SEC denied effectiveness of registration statement.

Central Vermont Public Service Corp., Rutland, Vt.
March 30 filed $1,500,000 Series E first mortgage bonds and 360,000 shares (no par) common stock. **Underwriters**—Names to be furnished by amendment (probably Kidder, Peabody & Co.). **Proceeds**—For a construction program and repair of flood damages.

Century Steel Corp., Hollydale, Calif.
Nov. 10 filed 4,000 shares ($100 par) common. **Underwriting**—None. Shares will be sold at par by directors. **Proceeds**—To purchase rolling mill, equipment and for working capital.

Challenger Airlines Co., Salt Lake City, Utah
March 1 filed 600,000 shares ($1 par) common stock, of which 400,000 are being sold for the company and 200,000 for the account of Claude Neon, Inc. **Underwriting**—None. **Price**—$2 a share. **Proceeds**—For equipment purchase and general funds.

Clinton (Iowa) Industries, Inc. (5/3-7)
March 26 filed $7,000,000 15-year debentures, due 1963. **Underwriters** — Smith, Barney & Co., New York and Newhard, Cook & Co., St. Louis, Mo. **Proceeds**—To repay a $1,500,000 bank loan to J. P. Morgan & Co., Incorporated and purchase outstanding stock of American Partition Corp. and its sales affiliate.

Clinton (Mich.) Machine Co.
April 15 (letter of notification) 10,000 shares of stock to be sold at $5⅛ each (market price), for selling stockholder. **Underwriter**—Charles E. Bailey & Co., Detroit.

• Collodia Processes, Inc., Reno, Nev.
April 19 (letter of notification 57,500 shares of Class I common stock ($1 par). Price, par. For promotional engineering and laboratory expense. No underwriting.

• Conron (Thomas) Hardware Co., Danville, Ill.
April 21 (letter of notification) 1,000 shares ($100 par) cumulative preferred stock $5 annual dividend, and 3,850 shares (no par) common stock (with a stated value of $10). Price, preferred, par; common $35. For working capital. No underwriting.

Consolidated Edison Co. of N. Y., Inc.
March 1 filed $57,382,600 of 3% convertible debentures, due 1963. Convertible at the rate of one common stock share for each $25 of debentures. **Offering**—Common stockholders will be given right to subscribe for debentures in ratio of $5 of debentures for each share held. The New York P. S. Commission April 23 indicated that it would approve the issue in the near future. **Underwriting**—Unsubscribed debentures will be offered at competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp. **Proceeds**—To redeem 273,566 shares of outstanding $5 cumulative preferred stock and to reimburse treasury for expansion expenditures.

Consumers Cooperative Assoc., Kansas City, Missouri
Oct. 16 filed $1,000,000 4% non-cumulative common stock ($25 par); $4,000,000 of 3½% certificates of indebtedness cumulative; and $1,000,000 of 1½% loan certificates cumulative. No underwriting. **Offering**—To the public. Common may be bought only by patrons and members. **Price**—At face amount. **Proceeds**—For acquisition of additional office and plant facilities.

Crampton Manufacturing Co. (4/29-30)
Feb. 5 filed $600,000 first mortgage 5½% sinking fund bonds, due 1966, with warrants to purchase 60,000 shares ($1 par) common stock. **Underwriter**—P. W. Brooks & Co., Inc., New York. **Proceeds**—To retire secured indebtedness, finance inventories and supplement working capital.

• Denver Icedrome, Inc., Denver, Colo.
April 22 (letter of notification) 220,000 shares of class A non-voting common stock and 14,000 shares of class B voting common stock. **Price**—$1 for each class. To construct an ice rink. No underwriting.

Dixie Fasteners, Inc., Chattanooga, Tenn.
April 14 (letter of notification) 75,000 shares of class B common stock (no par) of which 45,000 will be offered to the public at $1 each. For additional working capital, machinery and equipment.

Domestic Credit Corp., Chicago
Dec. 29 filed 150,000 shares ($1 par) Class A Common. **Underwriters**—None. **Offering**—To be offered to employees, executives and management personnel. **Price**—$3.49 a share. **Proceeds**—For working capital.

Empire Chemical Corp., Seattle, Wash.
March 24 (letter of notification) 60,000 shares of common voting capital stock. **Price**—$5 each. Business costs. No underwriter named, but may be Smith-Polian, Inc., Omaha, Neb.

Equipment Finance Corp., Chicago, Ill.
Feb. 26 filed 15,000 shares ($100 par) preferred stock. **Offering**—To be sold to employees and officers of the company and its parent, Curtiss Candy Co. **Price**—$100 per share. **Proceeds**—To be used for trucks in connection with the Curtiss' franchise method of distribution.

Esterbrook Pen Co., Camden, N. J.
March 17 (letter of notification) 1,500 shares of common stock (par $100). **Price**—Par. **Underwriting**—None. **Offering**—Stockholders of record April 7 will be given the right to subscribe for one new share for each four shares held. Rights expire May 7 and subscriptions are payable at First Camden National Bank & Trust Co. For working capital.

Finch Telecommunications, Inc., New York
March 31 (letter of notification) 1,000 shares of capital stock (par $1). **Price**—$4.50 per share. **Underwriter**—Littlefield & Co. will act as agent. Proceeds to selling stockholder.

NEW ISSUE CALENDAR

April 29, 1948

Crampton Manufacturing Co.—Bonds
Genuine Parts Co.—Common

April 30, 1948

Peninsular Telephone Co.—Common

May 3, 1948

Clinton Industries, Inc.—Debentures
N. Y. State Electric & Gas Corp. Noon (EDT)—Bonds
Sandy Hill Iron & Brass Works—Preferred
Trion, Inc.—Common

May 4, 1948

Southern California Gas Co. 8:00 a.m. (PDT)—Bonds
Southwestern Bell Telephone Co. 11:30 a.m. (EDT)—Debentures

May 6, 1948

Southern Pacific Co., noon (EDT)—Equip. Tr. Ctfs.
Sunray Oil Corp.—Preferred

May 10, 1948

Sierra Pacific Power Co.—Bonds
West Texas Utilities Co.—Bonds

May 11, 1948

Atlantic Coast Fisheries Co.—Bonds
Chesapeake & Ohio Ry., noon—Equip. Trust Ctfs.
Idaho Power Co.—Common
Long Island RR., noon (EDT)—Equip. Trust Ctfs.
Narragansett Electric Co.—Bonds

May 12, 1948

Kansas Gas & Electric Co.—Common

May 17, 1948

Playboy Motor Car Co.—Common

Fission Mines Ltd., Toronto, Canada
April 16 filed 200,000 shares of treasury stock. **Underwriter**—Mark Daniels & Co., Toronto. **Price**—$1 a share. **Proceeds**—For mining and business costs.

Fitzsimmons Stores, Ltd., Los Angeles, Calif.
Feb. 2 filed 10,000 shares of 6% cumulative first preferred stock ($100 par). **Underwriting**—Officers, directors and employees of the company will offer the stock to friends and associates. **Price**—$100 per share. **Proceeds**—To retire 7% preferred stock. Business: "Super Markets" in Los Angeles, Riverside, Colton and San Bernardino County.

Flotill Products, Inc., Stockton, Calif.
March 6 filed 385,000 shares of 60 cent convertible preferred stock (par $5) and 325,000 shares of common stock (par $1). **Underwriter** — Floyd D. Cerf Co., Chicago. **Price**—preferred $10; common $6. **Proceeds** — Stockholders will sell 260,000 preferred shares and 250,000 common shares and company 125,000 preferred shares common stock. **Price**—$1 each. For working capital.

Fraser Products Co., Detroit, Mich.
Oct. 21 filed 100,000 shares ($1 par) common. **Underwriters** — Campbell, McCarty & Co., and Keane & Co.. both Detroit. **Price**—$5.25 per share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds. Registration statement effective Jan. 16.

● **Frink Sand & Gravel Corp., San Diego, Calif.**
April 19 (letter of notification) 150,000 shares ($1 par) common stock. Price, par. For machinery, equipment and plant costs. No underwriting.

Gamble-Skogmo, Inc., Minneapolis
March 30 filed 120,000 shares ($50 par) cumulative preferred stock, convertible prior to July 31, 1958. **Underwriters**—Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Beane, New York, and Piper, Jaffray & Hopwood, Minneapolis. Price and number of shares by amendment. **Proceeds**—To reduce short-term bank loans totaling $13,850,000. Temporarily postponed.

Genuine Parts Co. (4/29-5/4)
March 30 filed 150,000 shares ($5 par) common stock, of which 50,000 are being offered by company and 100,000 by five stockholders. **Underwriter**—Courts & Co., Atlanta, Ga. Price by amendment. **Proceeds**—From the sale of the 50,000 shares. $400,000 of bank indebtedness will be retired and balance for working capital.

● **Goldfield Eureka Mines Co., Reno, Nev.**
April 19 (letter of notification) 50,000 shares of nonassessable common stock. **Price**—10 cents each. For mine development. No underwriting.

● **Graybar Electric Co., Inc.**
April 21 (letter of notification) 13,750 shares of common stock (par $20). To be offered to employees with two years' service at $20 per share. General corporate purposes.

● **Gulf Public Service Co., Inc., Lafayette, La.**
April 23 (letter of notification) 8,900 shares of common stock ($4 par). **Price**—$11.125. **Underwriter**—A. C. Allyn & Co., Chicago. Proceeds to selling stockholder.

Halliburton Oil Well Cementing Co. (5/12)
April 20 filed 730,000 shares of common stock (par $5). **Underwriters**—Lehman Brothers and Blyth & Co., Inc. **Proceeds**—Shares are being sold by certain stockholders and company will not receive any of proceeds. Of the shares registered 50,000 are to be offered direct to employees of company.

Idaho Power Co. (5/11)
April 16 filed 150,000 shares ($20 par) common stock. **Underwriters**—Blyth & Co., Inc., and Lazard Freres & Co., New York and Wagener & Daly, Inc., Boise, Idaho. Price by amendment. **Proceeds** — Proceeds of stock together with proceeds from the sale of $10,000,000 of 3% first mortgage bonds to 11 institutional investors, will be used to repay short-term bank loans and other construction costs.

● **Illinois Powder Co., St. Louis, Mo.**
April 20 (letter of notification) 6,500 shares ($20 par) common stock. Price, par. For sale to stockholders. For additional working capital. No underwriting.

International Asbestos Co., Ltd., Sherbrooke, Quebec
Jan. 30 filed 1,500,000 shares ($1 par) common stock. **Underwriter**—Paul E. Frechette, Hartford, Conn., is the U. S. authorized agent and principal underwriter. **Price**—$1 each. **Proceeds**—To construct milling plant and purchase equipment.

● **Jewel Tea Co., Inc., Barrington, Ill.**
April 19 (letter of notification) 5,000 shares (no par) common stock. **Price**—$42⅛ each. For general corporate purposes. No underwriting.

Johnson Foods, Inc., Oshkosh, Wis.
April 13 (letter of notification) 1,000 shares of 5½% cumulative preferred stock ($100 par). Price, par. **Underwriter**—Alm & Co., Oshkosh. For current obligations and working capital.

Kansas Gas and Electric Co., Wichita (5/12)
April 16 filed 250,000 shares (no par) common stock, to be sold by American Power & Light Co. (parent). **Underwriters**—To be determined through competitive bidding. Probable bidders: Dillon, Read & Co. Inc.; Blyth & Co., Inc. and The First Boston Corp. (jointly); Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly). Price by amendment. After the sale, American Power & Light plans to distribute the remaining 350,000 outstanding shares of Kansas Gas common stock owned by it to American stockholders. American Power & Light Co. has appointed Union Securities Corp. to negotiate for 150,000 shares of the stock. Offering expected about May 12.

Kansas Soya Products Co., Inc., Emporia, Kans.
Dec. 3 (letter of notification) 3,157 shares ($95 par) preferred. **Price**—$95 a share. **Undewriter**—Kenneth Van Sickle, Inc., Emporia. For additional working capital.

Kold-Hold Manufacturing Co., Lansing, Mich.
March 15 (letter of notification) 50,000 shares ($1 par) common stock. **Price**—$2 each. To be sold by H. Barkley Johnson and James J. McQuaid, both of Los Angeles. **Underwriter**—Buckley Brothers, Los Angeles.

Kool-Aid Bottling Co., Inc. of Calif., Sheboygan, Wisconsin
March 22 filed 1,500,000 shares ($1 par) common stock. **Underwriter**—Heronymus & Co., Sheboygan, Wis. **Proceeds**—To open and equip bottling plants in California cities. **Price**—$1 per share.

Lancaster Processes, Inc., New York
April 8 (letter of notification) 30,000 shares of common stock, of which 16,000 shares will be distributed to stockholders of Thomas Robinson Co., Inc., for all the assets of that company and 14,000 shares to be offered stockholders of Lancaster. **Price**—$2 per share. Working capital. Not underwritten.

Legend Gold Mines, Ltd., Toronto, Canada
June 27 filed 300,000 shares ($1 par) common treasury stock. **Underwriting** — To be supplied by amendment. **Price**—50 cents a share. **Proceeds**—To develop mining properties.

Le Roi Co., Milwaukee
April 19 (letter of notification) 30,000 shares ($2.50 par) common stock. **Price**—$4.875. To reduce bank loans. No underwriting.

● **Link-Belt Co., Chicago**
April 21 filed 11,845 shares (no par) value common stock. **Offering**—To be sold to certain officers and key employees of the company and its subsidiaries. Underwriting, none. **Price**—$46 each. **Proceeds** — Working capital. **Business** — Mechanical power transmission machinery.

● **Lonsdale Co., Providence, R. I.**
April 26 filed 1,192,631 shares ($1 par) common stock. **Offering**—To be offered to holders of common stock of Textron, Inc., at rate of one new share for each one held. An additional 60,000 shares will be issued to officers, directors and some employees of the newly organized company. **Underwriters**—For unsubscribed shares Blair & Co., Inc., and Maxwell, Marshall & Co., New York. Price by amendment. **Proceeds**—To be applied to the purchase price for an existing textile firm known as Lonsdale Co., a Textron subsidiary. **Business**—Textiles.

● **Los Angeles (Calif.) Independent Publishing Company**
April 22 (letter of notification) 15,000 shares ($1 par) common stock and $25,000 series A promissory notes. **Price**—$100 per unit of $100 of notes and three shares of stock. To purchase all the capital stock of Home Newspapers, Inc., and for working expenses. No underwriting.

Merrimac Mills Co., Methuen, Mass.
April 19 (letter of notification) 50,000 shares ($5 par) common stock, to be sold at par to stockholders. For working capital. No underwriting.

Metalube Corp., Newark, N. J.
April 12 (letter of notification) 448,051 shares of capital stock (par 25¢). **Price**—50¢ per share. **Underwriting**—None up to present time, but it is expected that an underwriter or dealers will be employed. Working capital and enlargement of facilities.

Midland Co., South Milwaukee, Wis.
April 12 (letter of notification) 20,000 shares of 6% cumulative preferred stock ($10 par) and rights to the purchase of 30,000 shares ($2.50 par) com. stock. To be issued pro rata to common stockholders in units of one preferred share and 1½ common stock rights for $10. **Underwriter**—For unsubscribed units, Gardner F. Dalton & Co., Milwaukee. To buy production machinery.

Motors Metal Manufacturing Co., Detroit, Mich.
April 14 (letter of notification) 15,000 shares ($5 par) common stock, to be sold by seven stockholders. **Price**—$6⅝ per share. **Underwriter**—William C. Roney & Co., Detroit.

Nalley's Inc., Tacoma, Wash.
Jan. 15 filed 119,152 shares of common stock (par $1.25). **Underwriters**—Walston, Hoffman & Goodwin and Hartley, Rogers & Co. **Offering**—63,785 shares are to be publicly offered (25,000 on behalf of company and 38,785 for account to Marcus Nalley, Chairman); 20,000 shares will be offered to employees, executives and directors and 35,367 shares are to be issued in acquisition of all publicly held stock or partnership interests in certain subsidiary and affiliated companies. Indefinite.

Narragansett Electric Co. (5/11)
March 30 filed $10,000,000 Series B first mortgage bonds, due 1978. **Underwriter**—To be determined under competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co. and Stone & Webster Securities Corp. (jointly); White, Weld & Co.; Lehman Brothers and Goldman Sachs & Co. (jointly). **Proceeds**—To reduce short-term loans and continue a construction program. **Expected** May 11.

National Gypsum Co., Buffalo, N. Y.
April 20 filed 422,467 shares ($1 par) common stock. **Underwriters**—W. E. Hutton & Co. and Blyth & Co., Inc., New York. Price by amendment. **Offering**—To be offered stockholders of record about May 10 at the rate of one new share for each four held. Rights expire May 24. **Proceeds**—For working capital.

New York State Electric & Gas Corp. (5/3)
April 7 (by amendment) filed $5,500,000 first mortgage bonds due 1978, and 35,000 shares of preferred (par $100). **Underwriters**—Names to be determined under competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp. (bonds only); Harriman Ripley & Co.; Hemphill, Noyes & Co. and Drexel & Co. (jointly); Lehman Brothers; Kidder, Peabody & Co.; Glore, Forgan & Co. **Proceeds** will be used toward construction. **Bids**—Bids for purchase of the bonds will be received by company at Room 2601, 61 Broadway, New York, up to noon (EDT), on May 3.

North Canadian Oils Limited, Calgary, Alberta
March 11 filed 903,572 shares (no par) common stock. **Price**—70 cents each. **Underwriter**—F. H. Winter & Co., New York. **Proceeds**—875,000 shares being sold by company and 28,572 by stockholders. Proceeds for purchase of property and drilling.

North Inca Gold Mines, Ltd.
March 10 filed 666,667 shares of common stock (par $1). **Underwriter**—Transamerica Mining Co., Ltd., Toronto. Proceeds for exploration and development.

Ocean Downs Racing Association, Inc., Berlin, Md.
Nov. 28 filed 34,900 shares ($10 par) common. No underwriting. **Price** — $10 a share. **Proceeds**—To build trotting and pacing race track near Ocean City, Md.

Old North State Insurance Co., Greenville, N. C.
March 15 filed 100,000 shares of capital stock ($5 par). **Price**—$15 each. **Underwriter**—First Securities Corp., Durham, N. C. **Proceeds**—General business purposes.

Pay Rock Oil, Inc., Tulsa, Okla.
March 29 (letter of notification) 500,000 shares (10 cent par) common stock. **Price**—30 cents each. **Underwriter**—Security Royalties, Inc., Tulsa. To drill oil wells and develop leases.

Peninsular Telephone Co. (4/30)
March 26 filed 35,374 shares (no par) common stock. **Underwriters**—Morgan Stanley & Co. and Coggeshall & Hicks, New York, and G. H. Walker & Co., Providence, R. I. **Offering**—Stock offered for subscription by holders of record April 15 at the rate of one for five. **Rights** expire April 29. **Price**—$37.50 per share. **Proceeds**—General corporate purposes.

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Playboy Motor Car Corp. (5/17)

Feb. 13 filed 20,000,000 shares common (1c par). **Price**—$1 per share. Not more than 100,000 shares will be offered to employees and officers at 87½ cents per share **Underwriter**—Tellier & Co., New York. **Proceeds**—For capital equipment and working funds.

Powers Oil & Drilling, Inc., Casper, Wyo.

March 23 (letter of notification) 200,000 shares (25¢ par) common stock. **Underwriter** — John G. Perry & Co., Denver, Colo. For a drilling program.

● **Radio Systems, Inc., Cleveland, Ohio**

April 19 (letter of notification) 17,500 shares (50¢ par) common stock. **Price**—$3.50 each for the 7,500 shares to be offered optionees and $7 each for the 10,000 to be offered to the public. For payrolls, operating expenses, working capital. No underwriting.

Raleigh Red Lake Mines, Ltd., Toronto, Can.

Jan. 7 filed 460,000 shares of common stock. **Underwriter**—Mark Daniels & Co., Toronto, Canada. **Price**—25 cents a share in Canadian funds. **Proceeds**—For exploration and development of mining property.

Reiter-Foster Oil Corp., New York

Jan. 16 (letter of notification) 180,000 shares (50c par) common stock. **Price**—80 cents. **Underwriter**—Frank W. Bennett & Co. For working capital.

● **Republic Aviation Corp., Farmingdale, N. Y.**

April 21 (letter of notification) 4,000 shares of capital stock (par $1). Henry J. MacDonald is purchasing 4,000 shares at $7¼ per share pursuant to option granted July 18, 1945. General corporate purposes.

● **Republic Aviation Corp., Farmingdale, N. Y.**

April 22 (letter of notification) 4,000 shares of capital stock (par $1). Hans E. Lasker is purchasing 4,000 shares at $7¼ per share pursuant to option granted June 20, 1945. General corporate purposes.

Robinson Airlines Corp., Ithaca, N. Y.

March 9 (letter of notification) 85,384 shares of common stock (par $1). Of the total 75,384 shares will be offered for subscription by stockholders on a share for share basis at $3 per share. The additional 10,000 shares plus any unsubscribed for by stockholders will be offered the public at $4 per share. **Underwriting**—Company may engage an underwriter to make the general public offering. Proceeds will be used for working capital, etc.

Sandy Hill Iron & Brass Works, Hudson Falls, New York (5/3)

April 12 (letter of notification) 59,000 shares class A participating preferred stock (par $4). **Price**—$5 per share. **Underwriter**—John L. Nolan, Inc., Glens Falls, N. Y. Working capital.

● **San Marcos Boat Co., Los Angeles**

April 23 (letter of notification) 650 shares of non-assessable ($100 par) stock. **Price**—Par. For working capital. No underwriting.

Segal Lock & Hardware Co., Inc., New York

March 24 filed $2,000,000 15-year 6% convertible sinking fund debentures, due 1963. **Underwriter**—Floyd D. Cerf Co., Inc. Price by amendment. **Offering**—To be offered initially to stockholders on basis of one $100 debenture for each 100 shares held. **Proceeds**—For repayment of two notes and general corporate purposes.

Seminole Oil & Gas Corp., Dallas, Texas

March 4 (letter of notification) 11,400 shares of common stock. **Underwriter**—Buckley Bros. Proceeds to selling stockholders.

Sierra Pacific Power Co. (5/10)

March 26 filed $3,500,000 first mortgage bonds, due 1978. **Underwriters**—To be determined by competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Stone & Webster Securities Corp. **Proceeds**—Construction costs and the payment of $650,000 to National Shawmut Bank of Boston for construction notes. Expected about May 10.

Silver Bell Mines Co., Denver

Feb. 26 filed 125,000 shares ($1 par) capital stock. **Price**—$2.50 each. **Offering**—To be made to present stockholders on a pro rata basis during first 10 days of sale. **Proceeds** — Exploration work, working capital and indebtedness.

South Carolina Insurance Co., Columbia, S. C.

April 1 (letter of notification) 10,000 shares of common stock. **Price**—$17.50 each. Of the proceeds, $100,000 will be used for capital and the remainder for surplus. No underwriters.

South Carolina Electric & Gas Co.

Dec. 2 filed 80,858 shares ($50 par) cumulative convertible preferred and 404,293 shares ($4.50 par) common for sale, and 687,293 shares reserved for conversion of preferred. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Shares initially will be offered for subscription by company's common stockholders, the preferred on a 1-for-10 basis and the common on a 1-for-2 basis. Unsubscribed shares will be offered publicly. **Price** by amendment. **Proceeds**—Proceeds together with other funds will be used to purchase all of the outstanding common of South Carolina Power Co. from the Commonwealth & Southern Corp.

● **Southern California Edison Co.**

April 23 filed 800,000 shares of preference stock, convertible series (par $25). **Underwriters**—The First Boston Corp. and Harris, Hall & Co. (Inc.) **Proceeds**—Reimburse company for expenditures for acquisition of property extensions, etc. Price by amendment.

Southern California Gas Co. (5/4)

March 16 filed $15,000,000 3¼% first mortgage bonds, due 1978. **Underwriters**—Names by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Harris, Hall & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane; White, Weld & Co.; Lehman Brothers. **Proceeds**—To reimburse treasury for expenditures made to expand properties. **Bids**—Bids for purchase of the bonds will be received by company at Room 934, 810 So. Flower Street, Los Angeles, Calif., up to 8 a.m. (PDT) on May 4.

Southwestern Bell Telephone Co. (5/4)

April 2 filed $100,000,000 35-year unsecured debentures, due 1983. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Proceeds**—$95,000,000 will be used to repay advances from American Telephone & Telegraph Co. (parent); and balance will be used for construction. **Bids**—Bids for purchase of the bonds will be received at Room 2315, 195 Broadway, New York, up to 11:30 a.m. (EDT) May 4.

● **Southwestern Virginia Gas Service Corp., Martinsville, Va.**

April 22 (letter of notification) $35,000 6% debentures, due 1968. **Price**—Par. To repay bank loans, purchase equipment, and for general funds. **Underwriter**—Bioren & Co., Philadelphia, and C. T. Williams & Co., Inc., Baltimore, Md.

Stanley Works, New Britain, Conn.

April 14 (letter of notification) $300,000 of common stock at the average bid price during April, which at the present bid of $60 would be about 5,000 shares. To increase cash working balance and pay bank loans. No underwriting.

Steak 'n Shake, Inc., Bloomington, Ill.

Feb. 2 filed 40,000 shares of 50c cumulative convertible participating preferred stock, ($1 par) and 160,000 shares (50c par) common stock, of which 40,000 will be sold and the remainder reserved for conversion. **Underwriter**—White & Co., St. Louis, Mo. **Price**—$8 for the preferred stock and $2.50 for the common. This stock is being offered by stockholders who are members of the Belt family.

Stearns (F. C.) Hardware, Inc., Hot Springs, Arkansas

March 26 (letter of notification) 2,000 shares of 6% cumulative preferred stock ($100 par). **Price**—Par. **Underwriter**—Southern Securities Corp., Little Rock, Ark. To retire $65,000 of loans and for general working purposes.

Suburban Gas Service, Inc., Ontario, Calif.

March 22 filed $500,000 12-year 6% series sinking fund debentures, due March 1, 1960, with purchase warrants attached for the purchase of 50 shares of common stock ($1 par). **Underwriters**—Lester & Co. and Wagenseller & Durst, Inc., Los Angeles. **Proceeds**—To purchase the California Butane Co.

Sunray Oil Corp. (5/6)

April 14 filed 600,000 shares of cumulative convertible preferred stock, series B (par $25). **Underwriter**—Eastman, Dillon & Co., New York. **Proceeds**—Will be added to general funds.

Tabor Lake Gold Mines, Ltd., Toronto, Canada

April 2 filed 300,000 shares (par $1) preferred stock. **Underwriter**—Mark Daniels & Co., Toronto, Canada. **Price**—60 cents a share. **Proceeds**—For mine developments.

● **Tonopah Divide Mining Co., Reno, Nev.**

April 19 (letter of notification) 87,500 shares of non-assessable common capital stock ($1 par). Price, par. For obligations from operation of Gaston mine and mill. No underwriting.

Trans-Marine Oil Refining Corp., South Milwaukee, Wis.

March 19 filed 850,000 shares ($1 par) common stock. **Price**—$1 each. **Underwriter**—Distribution by company. **Proceeds**—To build and equip machinery.

● **Trion, Inc., McKees Rocks, Pa. (5/3)**

April 26 (letter of notification) 50,000 shares of common stock (par $2). **Price**—$5 per share. **Underwriter**—A. E. Masten & Co., Pittsburgh. Discharge indebtedness representing borrowings for working capital.

Union Electric Co. of Missouri

April 19 filed $25,000,000 of debentures, due 1968. **Underwriters**—To be determined through competitive bidding. Probable bidders: White, Weld & Co. and Shields & Co. (jointly); The First Boston Corp.; Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; Lehman Brothers. **Proceeds**—To pay construction loans and provide construction funds for a subsidiary, Union Elec. Power Co.

United Rayon Corp., New York City

March 29 filed 9,950 shares (no par) common stock. **Price**—$1,000 each. Each share is to be accompanied by a "production warrant" permitting the holder to buy a proportionate share of the company's output. **Underwriting**—None. **Proceeds**—To provide capital for the purchase and operation of a plant with an annual productive capacity of 4,000,000 pounds of viscose filament rayon and 3,000,000 pounds of viscose staple fiber.

● **Utilities Distributors, Inc., Portland, Me.**

April 26 (letter of notification) $300,000 of special 5% preferred stock ($100 par). **Price**—Par. For working capital. No underwriting.

Webrib Steel Corp., New York

April 8 (letter of notification) 44,443 shares of common stock (par $5). **Offering**—Offered for subscription by stockholders at par in ratio of one new for each two shares held. Rights expire May 18. Working capital. Not underwritten.

West Texas Utilities Co. (5/10)

March 29 filed $5,000,000 Series B first mortgage bonds, due 1978. **Underwriter**—To be determined by competitive bidding. Probable bidders include: The First Boston Corp.; Harriman Ripley & Co. and Blyth & Co., Inc. (jointly); Halsey, Stuart & Co. Inc.; W. C. Langley & Co.; Kidder, Peabody & Co.; Stone & Webster Securities Corp.; Merrill Lynch, Pierce, Fenner and Beane; Kuhn, Loeb & Co. and Lehman Brothers. **Proceeds**—For a construction program. Expected about May 10.

Western States Oil Co., Phoenix, Ariz.

April 3 (letter of notification) 300,000 shares of common stock (par $1). **Price**—$1 per share. **Underwriter**—Arizona Securities Co., Phoenix, Ariz. To buy oil leases and equipment for drilling.

● **Wheary, Inc., Racine, Wis.**

April 19 (letter of notification) 507 shares ($100 par) common stock. **Price**—$90. For working capital. No underwriting.

Wilson-Jones Co.

Feb. 25 filed 32,937 shares of common stock (par $10). **Underwriters**—None. **Offering**—Offered for subscription by stockholders of record March 24 in ratio of one new share for each eight shares held. Rights will expire April 30. **Price**—$12 per share. **Proceeds**—Plant additions and purchase of securities and assets of other companies.

Prospective Offerings

● **Chesapeake & Ohio Ry. (5/11)**

Company will receive bids to be opened at noon on May 11, on an issue of $4,450,000 of serial equipment trust certificates. The certificates will be dated May 15, 1948, and will mature from May 15, 1949, to May 15, 1958. Probable Bidders: Halsey, Stuart & Co. Inc; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc.; and Lehman Brothers (jointly); The First Boston Corp.; Blyth & Co., Inc.; Harris, Hall & Co. (Inc.).

● **Darling Stores Corp.**

April 23 reported company contemplates common stock financing, with Johnston, Lemon & Co., as probable underwriter.

● **Long Island RR. (5/11)**

The company is requesting bids for the purchase of $4,035,000 equipment trust certificates, Series K, dated May 1, 1948, to mature in 15 equal annual instalments of $269,000, from May 1, 1949 to May 1, 1963. Bids must be received at the office of Geo. H. Pabst, Jr., Vice-President, at Room 1811, Broad Street Station Building, Philadelphia 4, Pa., at or before noon (EDT), May 11. Probable Bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. Inc. and Lehman Bros. (jointly).

● **Mutual Telephone Co., Honolulu**

The company has applied to the P. U. Commission of Hawaii for authority to issue $5,000,000 bonds in 1948, subject to the approval of stockholders.

● **Pacific Gas & Electric Co.**

April 28 reported company is considered likely to make an offering of preferred shares, probably by direct sale, before long. Proceeds would be used to finance its big construction program, estimated to run in excess of $300,000,000 by 1951.

● **Southern Pacific Co. (5/6)**

The company is inviting bids for the purchase of $11,100,000 equipment trust certificates, series X, to mature in 10 equal annual instalments and to be secured by new railroad equipment costing not less than $16,650,000. All bids must be received at the office of J. A. Simpson, Treasurer, Room 2117—165 Broadway, New York, at or before noon (EDT), on May 6. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly); The First Boston Corp.; Blyth & Co., Inc.; Harris, Hall & Co. (Inc.).

United States Savings Bonds Issued and Redeemed Through March 31, 1948

(Dollar amounts in millions—rounded and will not necessarily add to totals)

	†Amount Issued	†Amount Redeemed	‡Amount Outstdg.	Percent Redeemed of Amt. Issued
Series A-D:				
Series A-1935 (matured)	$255	$248	$7	97.25%
Series A-1936 (matured)	463	445	18	96.11
Series C-1937 (matured)	590	541	48	91.69
Series C-1938	675	288	§386	42.67
Series D-1939	1,045	225	820	21.53
Series D-1940	1,233	243	990	19.71
Series D-1941	528	95	433	17.99
Total Series A-D	$4,789	$2,087	$702	43.58
Series E:				
Series E-1941	1,481	361	1,119	24.38
Series E-1942	6,698	2,487	4,210	37.13
Series E-1943	10,960	4,800	6,160	43.80
Series E-1944	12,799	5,735	7,064	44.81
Series E-1945	9,958	4,277	5,681	42.95
Series E-1946	4,372	1,351	3,020	30.90
Series E-1947	4,054	666	3,388	16.43
Series E-1948 (3 months)	902	9	893	1.00
Total Series E	$51,223	$19,687	$31,535	38.43
Total Series A-E	$56,011	$21,774	$34,238	38.87
Series F and G:				
Series F and G-1941	1,534	215	1,319	14.02
Series F and G-1942	3,195	524	2,671	16.40
Series F and G-1943	3,368	565	2,803	16.78
Series F and G-1944	3,697	482	3,216	13.04
Series F and G-1945	3,147	300	2,848	9.53
Series F and G-1946	2,995	180	2,815	6.01
Series F and G-1947	2,588	49	2,539	1.89
Series F and G-1948 (3 months)	622	*	622	----
Total Series F and G	$21,147	$2,313	$18,833	10.94
Unclassified sales and redemptions	117	127	—10	
Total Matured	$1,308	$1,235	$73	94.42
All Series—Total Unmatured	75,967	22,978	52,988	30.25
Grand Total	$77,275	$24,213	$53,061	31.33

*Less than $500,000. †Includes accrued discount. ‡Current redemption values. §Includes matured bonds which have not been presented for payment.

Our Reporter's Report

Yesterday's offering of $35,000,000 of new capital issues of Swift & Co., big packing firm, afforded investors, particularly institutions, their first opportunity in weeks to take on the obligations of a corporation other than a utility.

Bankers for the big Chicago company opened subscription books for $25,000,000 of new 25-year debentures, carrying a 2⅞% coupon, and an additional $10,000,000 of one-to-ten year serial notes, all priced at par.

Indications were that the issues, seemingly well adjusted to current market conditions, would attract widespread interest, among other reasons for the fact that they would offer an opportunity for some measure of diversification.

Carrying the 2⅞% rate and being of a bit shorter maturity than the rank and file of utility issues making their appearance the debentures naturally had special appeal.

Meanwhile the serials focused the attention of fiduciary interests having open spots into which the varying maturities would fit readily.

The serials will provide the investor with a return varying from 1.45% on the 1949 portion to 2.55% on the series reaching maturity in 1958.

Consolidated Natural Gas 2¾s

The syndicate which purchased and brought out the recent issue of Consolidated Natural Gas Co.'s 20-year 2¾% debentures was dissolved early this week.

Brought out at 100¾ the issue, left to take care of itself marketwise, appeared to settle around 100¼ bid and 100½ offered indicating that by far the bulk of the debentures had been well-placed.

Meanwhile it was reported that Gulf States Utilities Co.'s 30-year 3s, brought out about the same time at 101¾ were still available at the issue price.

Consolidated Edison

Indications are that Consolidated Edison Co., of New York soon will get Public Service Commission approval for its $57,382,600 of projected 15-year 3% convertible debentures.

This undertaking is part of the general refinancing undertaken by the big metropolitan company but held up temporarily and will be offered to common holders in the ratio of $5 principal amount for each share held.

Funds raised will be used to retire 273,566 of the 2,188,890 shares of outstanding $5 preferred to pay off bank loans incurred this year and to provide for part of new construction.

The issue would be convertible into common at $25 a share at the option of the holder.

Revival in Equities

The next few weeks holds promise of a substantial revival in plans of companies to seek new capital through the medium of equity securities. A number of potential large issues is now in prospect.

Southern California Edison Co. is **slated to offer 800,000 shares additional of $25 par convertible preferred stock the second week in May. This would be offered first to common shareholders with bankers agreeing to underwrite any unsubscribed portion.**

National Gypsum has 422,467 **shares of $1 par common in registration which could reach market in the near future.**

Oil Company Financing

Meanwhile some segments of the oil industry are moving into the market for new funds to enable them to expand facilities for meeting the enormous demand for their products.

Sunray Oil Corp. **has gone into registration covering a projected issue of 600,000 shares of cumulative convertible preferred Series B of $25 par which could reach market within a fortnight or so.**

Halliburton Oil Well Cementing Co. has filed to cover 730,000 shares of $5 par common. But here the company will not derive any of the funds since the stock is being sold by certain stockholders, with 50,000 shares of the total to be offered to employees and the balance to the public.

With A. M. Kidder & Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, FLA. — Ralph D. Hollowell is now with A. M. Kidder & Co., Alfred I. du Pont Building. He was previously with Daniel F. Rice & Co.

With Herrick, Waddell & Co.

(Special to THE FINANCIAL CHRONICLE)

PALM BEACH, FLA.—Alexander W. MacDougall is with Herrick, Waddell & Co., Inc., 55 Liberty Street, New York City.

Business Man's Bookshelf

Money, Debt, and Economic Activity—A. G. Hart—Prentice-Hall, Inc., 70 Fifth Avenue, New York 11, N. Y.—paper.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

Congress now has reached a state of almost complete disorganization. Hence almost anything which happens from here on until the closing act will be primarily a matter of accident and only in small part a matter of design.

There is every glaring evidence of this disorganization. It shows up in the surprisingly large margin for public housing in the Senate. It is indicated by such things as the Joint Economic Committee scheduling several weeks of hearings on inflation, and then forgetting it while one of its leaders campaigns for delegates. The anarchy of the situation is reflected by two of the coolest heads of the GOP organization getting into a public disagreement about the continuance of farm price supports.

The Congress thus is all but leaderless, and almost anything can happen.

Take social security, for example. In the last minute rush to "do something for the voters" a House subcommittee is fussing around with proposals for expansion in coverage, but with no thought of the disagreeing ideas of others in Congress who will have to pass on the final result. Chairman Knutson of the Ways and Means Committee wobbles around on business tax revision so rapidly most people have given up trying to figure out what will happen, if anything, and when. One time he is for doing something about excise tax relief and then he is against it, and the next week he is for it again. One time he expects to have a revision bill ready in a short time and then he is for a month's delay, and then he changes his mind again.

* * *

One of the spectacles which has got the well-wishers of the GOP most depressed is the disagreement between Chairman Hope of the House Committee on Agriculture and Chairman Wolcott of the House Banking Committee on the matter of continuing farm price supports.

Chairman Hope brought out of his Committee a bill to deal with the "90% supports," which expire at the end of this calendar year unless continued by Congress. Hope's bill would continue the 90% supports only on the "five basics," cotton, corn, wheat, tobacco, and peanuts, plus milk. For all the other score of farm commodities, Hope would lower the support levels to somewhere between 60% and 90%, at the discretion of the Secretary of Agriculture. Furthermore, the supports on the "non-basics" would be dependent upon the promulgation of measures to restrict their production.

Hope is aiming at a couple of things. For one thing, he doesn't want something like another potato surplus to develop. High government price supports on perishable crops, he fears, will put the government once more in a position of supporting an overproduction of some of these perishable crops, and force the government to buy them up and dump them into the river. This could only lead to a discrediting of the idea of farm price supports generally.

Second, Hope aims to achieve a scaling down in the volume of price supports under the permanent revision of the farm laws he is shooting at for 1949. A scaled-down temporary support would enable the new Congress next year to bridge over the gap between the present high supports and a generally lower level. In short, it would make it easier to get across the idea that the government's liability for farm prosperity should be a lesser liability.

* * *

Chairman Wolcott, on the other hand, has had reported out of his Banking Committee a bill which would continue without change the present 90% supports. Wolcott's Committee was able to do this by virtue of an ambiguous feature of the Legislative Reorganization Act. While that act assigned to the Committee on Agriculture jurisdiction over farm legislation, it also assigned to the Banking Committee jurisdiction over government lending agencies, including particularly, the Commodity Credit Corp. In the process of bringing out a bill to continue CCC, through which price supports may be operated, the Wolcott bill extends the present supports without change.

All that the Hope and Wolcott bills have in common is that whatever supports may be continued are maintained until June 30, 1950.

Wolcott's philosophy is believed to be that it is just good politics not to tell farmers they can count on less than 90% price supports during an election year. Furthermore, in view of a prospect of continued strong demand for food, few if any commodities are likely to drop to support levels. So this gesture would cost little or nothing and might save the GOP some votes.

* * *

This disagreement, however, will not reach the open "battle" stage. Wolcott, who personally gets along well with Hope, will ask for a rule which will permit the House to take its choice between present 90% supports and a lowered scale of potential government benevolence.

* * *

Congress has just about given up the idea it can do something to reform this year its impractical "Legislative Budget" procedure which requires the 109 members of the taxing and spending committees of Congress to frame a "Legislative Budget" by February 15. There had been hopes that the date of the so-called legislative budget could at least be pushed back to some more practical time later in the session, when the fiscal picture would be clearer. There was also hope that the membership of the cumbersome committee could be reduced to something more like a working committee and less like a convention.

Under the present chaotic outlook, almost anything can happen at any time, but few now have hopes that this change can be made in the short time remaining.

* * *

Accepted view of many of the professional politicos is that the leading candidates for the GOP presidential nomination now are Senator Vandenberg and Speaker Martin. The theory is now that instead of a deadlock between Senator Taft and Governor Dewey, there will be a deadlock among Taft, Dewey, and Stassen.

This leaves Vandenberg and Martin as the two outstanding "dark horses." If the three could get together, the talk around here is that, denied the nomination themselves, the three would most likely pass the honor to the Michigan Senator. It doesn't follow for sure, however, that the three can get together, or that if they do, they can deliver the bulk of their following on a deal. Martin might have a chance to do some decisive work in the event of the expected deadlock.

* * *

It is now being said that there is a deep-seated conflict between the philosophy of the present majority of the Federal Reserve Board, under the leadership of Vice-Chairman Eccles, and the new Chairman of the Board, Thomas B. McCabe.

In its house-written book explaining "The Federal Reserve System, Its Purposes and Functions," the FR Board leads off with this opening statement:

"The principal purpose of the Federal Reserve System is to regulate the supply, availability, and cost of money with a view to contributing to the maintenance of a high level of employment stable values, and a rising standard of living."

This is the function of contributing to the planned economy, and its leading exponent is Mr. Eccles.

Mr. McCabe, on the other hand, is said to believe that the Federal Reserve System was set up as its statute says, for the purpose of serving industry, commerce, and agriculture with credit. He sees the FR system as a service organization, and not as an agency to help warp the economy down the planning road.

* * *

There is a great deal of history behind the Republican move to get nasty about President Truman's nominations of a lot of officials for terms running into or beyond the Administration which will be elected next November. The row was touched off over Truman's insistence upon reappointing David Lillienthal as Chairman of the Atomic Energy Commission for five years.

Mr. Truman thinks it is just awful and political that the Senate might want to hold up some high officials from getting these terms.

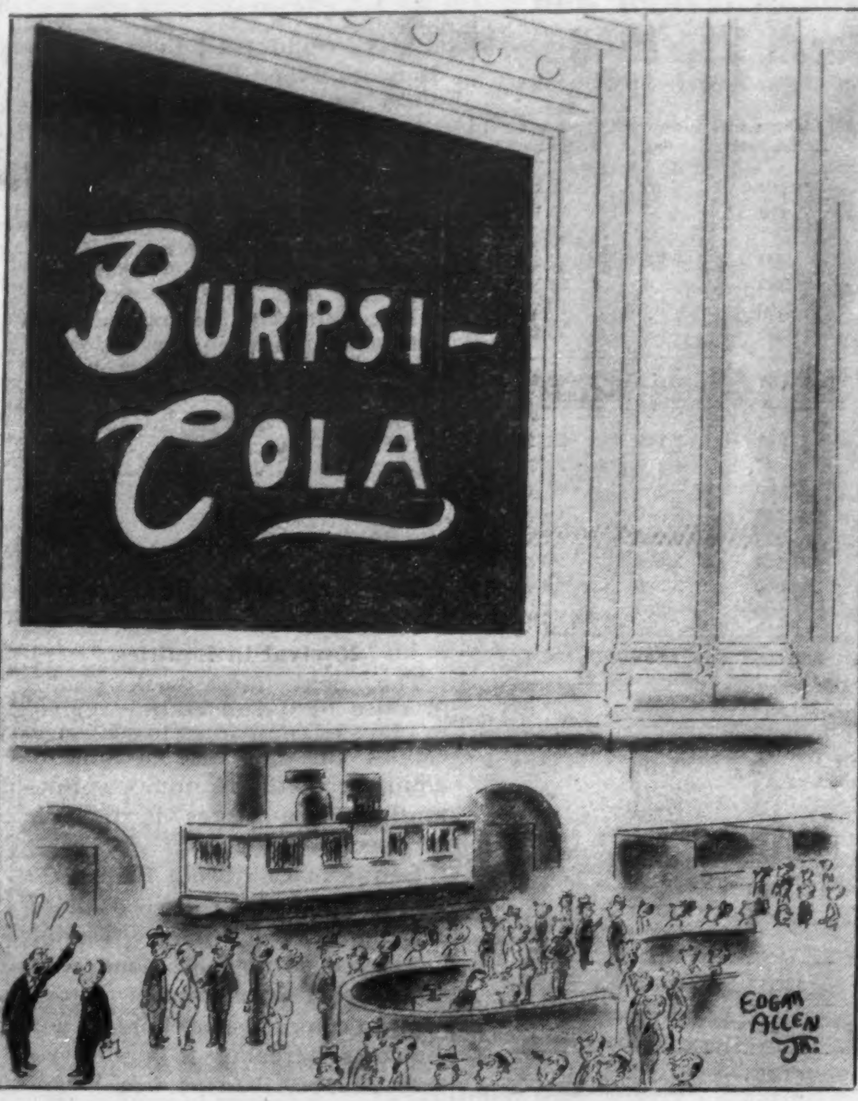
Back in December, 1932, after the voters had selected Roosevelt and rejected Hoover, the Democrats, with dissident Republicans, had a practical working majority of the Senate, even if the Republicans had nominal control of the Senate. The late Senator Robinson, then the Democratic Leader, announced on Dec. 14, 1932, that the Senate would confirm no nominees other than pro-forma nominees (like officers of the foreign service or the armed services) whose terms extended beyond March 4, 1933, the date of the first Roosevelt Administration.

Robinson made this policy stick. It had some queer effects. The late Rep. Charles Crisp of Georgia, rated as an outstanding Democrat, was defeated when he ran for the Senate after championing the sales tax which the then Democratic House Leader Garner kicked over as being too dangerous to the party. Hoover felt that he should reward an outstanding Democrat who had done public service, so nominated him to the Tariff Commission. The Democrats refused to confirm him.

Still farther back, in 1920 the Republicans had control of the Senate after the 1920 election, and in the "lame duck" session of 1920-21 refused to confirm the nominees of President Wilson.

So keeping jobs open for a new Administration to fill is a fairly well established custom.

BUSINESS BUZZ



"I don't care if things are a bit slow—stop renting the board!"

Joins Herbert S. Wolff

(Special to THE FINANCIAL CHRONICLE)

SOUTH BEND, IND.—J. Erricson Worden has become associated with Herbert S. Wolff Securities Co., J. M. S. Building.